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# NAVAL POSTGRADUATE SCHOOL

## Monterey, California



## THESIS

**AN ANALYSIS OF THE NATO PROCUREMENT SYSTEM**

by

Kenneth J. Broomer

December 1999

Thesis Advisor:  
Associate Advisor:

William Gates  
David A. Smith

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**AN ANALYSIS OF THE NATO PROCUREMENT SYSTEM**

Kenneth J. Broomer  
Lieutenant Commander, United States Navy  
B.A., Virginia Polytechnic Institute and State University, 1986

Submitted in partial fulfillment of the  
requirements for the degree of

**MASTER OF SCIENCE IN MANAGEMENT**

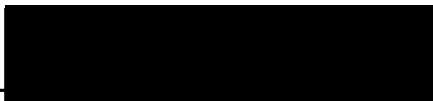
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December 1999**


Author:

  
Kenneth J. Broomer

Approved by:

  
William Gates, Thesis Advisor

  
David A. Smith, Associate Advisor

  
Rueben T. Harris, Chairman  
Department of Systems Management

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## **ABSTRACT**

Since the end of the "Cold War" and the disintegration of the Warsaw Pact, NATO alliances have collectively had to change their procurement philosophies. NATO procurement (as it applies to the 19 nations) has met with decreased military funding due to changes in the military environment. Much of the emphasis on procurement today revolves around multinational efforts and is marked by global standardization. However, NATO's organizational procuring entities have changed very little since the end of the Cold War. By assessing the practices of three of the procuring entities, recommendations can be made regarding procurement policies and procedures and principal problem areas.

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## **I. INTRODUCTION**

### **A. PURPOSE**

This thesis presents, analyzes, and assesses NATO's procurement system to determine its functionality with NATO's mission. Aided with selected comparisons to the U. S. procurement system, this thesis will identify policies, procedures, and methodologies that govern NATO procurement.

### **B. BACKGROUND**

In the early years of NATO procurement, the alliance competed against the Warsaw Pact to procure equipment to deter aggression against the alliance and ensure superior NATO battlefield technology. NATO's procurement practices, although decentralized, maintained a distinct advantage due to Western procurement influences.

Since the end of the "Cold War" and the disintegration of the Warsaw Pact, NATO alliances have collectively had to change their procurement philosophies due to the changes in global politics and decreased military spending. NATO's role has essentially become "police oriented." With the advent of Joint Vision 2010 and the changing battlefield, NATO's procurement entities must continue to support the political and economic environments of their alliance nations. By assessing their procurement practices, recommendations can be made regarding the current policies and procedures.

### **C. AREA OF RESEARCH**

This research will examine the North Atlantic Treaty Organization's (NATO's) acquisition and procurement policies with respect to the dynamic international procurement environment. More specifically, the research will review and analyze NATO procurement policies to determine if its methodology is consistent with NATO's mission, interests among the alliance nations, and the deployment policies for multinational forces. This research paper will compare and contrast the U.S. procurement policy with NATO policy as appropriate; it will not review the U.S. procurement system in its entirety.

### **D. RESEARCH QUESTIONS**

Primary Research Question: What is the NATO procurement and contracting process, and what actions can be taken to improve the acquisition of goods and services?

#### **Secondary Research Questions**

- a) What are the contracting procedures and what organizations conduct NATO procurement?
- b) What types of goods and services does NATO procure?
- c) What are the principal supply sources for NATO procurement?

- d) What individuals are responsible for performing NATO procurement?
- e) What are the principal problems associated with NATO procurement?
- f) What alternative short and long term solutions might resolve these problems?
- g) What modifications can be made to the NATO procurement process to enhance its efficiency and effectiveness?

## **E. SCOPE AND LIMITATIONS**

This thesis studies NATO's procurement history and some of the lessons to establish the mechanisms for existing procedures. This study will also address NATO budgeting and planning to understand how NATO procurement dollars are managed.

Three NATO commands will be studied to support this thesis: Allied Command Europe (ACE), NATO's Consultation, Command, and Control Agency (NC3A), and NATO's Maintenance and Supply Agency (NAMSA). This study will detail each organization's specific acquisition planning process, solicitation process, source selection process, negotiation and award process, and contract administration process based on its respective directives. This thesis will not review the U.S. procurement system entirely; however, some references will be made with regard to the United States' specific acquisition phases.

## **F. METHODOLOGY**

Multiple data collection efforts have been made to collect the information used for this thesis. The first is a thorough search of the Internet and periodicals research. The second draws on NATO procurement regulations. Lastly, constructive interviews and correspondence were conducted with personnel from ACE, NC3A, and NAMSA.

## **G. ORGANIZATION**

This study is organized in the following manner:

Chapter I presents the purpose, background, objectives, and methodologies of the thesis.

Chapter II describes the history of NATO procurement policies and identifies the regulations that govern current policy and procedure.

Chapter III summarizes the procurement processes, including acquisition planning, the solicitation process, source selection evaluation, the award phase, and contract administration.

Chapter IV details the principal problem areas.

Chapter V analyzes the principal problem areas and suggests some alternative solutions.

Chapter VI draws conclusions, summarizes the research questions, makes recommendations, and suggests areas for future study.

## **H. SUMMARY**

Chapter I presented the purpose and objectives of this thesis. The primary and secondary research questions as well as the methodology and approach to answering the questions were also presented.

Chapter II provides an extensive history of NATO procurement and reviews the current regulations and policies.





## **BACKGROUND**

### **A. HISTORY OF NATO**

From 1945 to 1949, faced with the pressing need for economic reconstruction, Western European countries and their North American allies viewed with concern the expansionist policies of the Soviet Union. Having reduced their defense establishments and demobilized forces, Western governments became increasingly alarmed as the Soviet leadership kept their military forces at maximum strength. It was also evident that appeals to respect the United Nations Charter for international settlements would not guarantee the national sovereignty or independence of democratic states faced with the threat of outside aggression or internal sedition. The imposition of non-democratic forms of government and the repression of both effective opposition and basic human and civic rights and freedoms in many Central and Eastern European countries, as well as elsewhere in the world, added to these fears. [Ref. 1]

Direct threats to the sovereignty of Norway, Greece, and Turkey beginning in 1947 led to the signing of the Brussels Treaty in March 1948. This Treaty revealed that five Western European countries, (Belgium, France, Luxembourg, the Netherlands, and the United Kingdom), were determined to develop a common defense system and to strengthen the ties between them to resist ideological, political and military threats to their security. [Ref. 1]

Negotiations with the United States and Canada then led to the creation of a single North Atlantic Alliance based on security guarantees and mutual commitments by Europe and North America. Denmark, Iceland, Italy, Norway and Portugal were invited by the Brussels Treaty powers to become participants in this process. These negotiations culminated in the signature of the Treaty of Washington in April, 1949, that developed a common security system based on a partnership among these 12 countries.

The North Atlantic Treaty of April, 1949, - which is the legal and contractual basis for the Alliance - was created to promote the rights of independent states to individual or collective defense. The Preamble to the Treaty states that the aim of the Allies is to "...promote peaceful and friendly relations throughout the North Atlantic Area." However, at the time of the Treaty's signature, the immediate purpose of NATO was to defend its members against a potential threat resulting from the aggression policies and growing military capacity of the former Soviet Union. [Ref. 1]

In 1952, Greece and Turkey acceded to the Treaty. The Federal Republic of Germany joined the Alliance in 1955 and, in 1982, Spain also became a member of NATO [Ref 1]. In April, 1999, three former Warsaw Pact nations, the Czech Republic, Hungary, and Poland joined the Alliance.

The North Atlantic Alliance is a Treaty between member states, entered into freely after considerable public debate and parliamentary process. The Treaty upholds the member's rights as well as their international obligations in accordance with the Charter of the United Nations. By signing the Treaty, each member country commits to sharing the risks and responsibilities, and in turn reaps the benefits of collective security. It

precludes every member from entering into any other international commitment that would conflict with the purpose of the Treaty. [Ref. 1]

Since its creation, NATO's central focus has been providing for the immediate defense and security of its member nations. The core task of protecting the alliance is still NATO's preeminent manifest, but the immediate goals have undergone fundamental changes. [Ref. 1]

NATO Heads of State and Government passed fundamental changes to NATO in a November 1991 Strategic Concept developed in Rome. The focus was a broad approach to security, cooperation and the maintenance of a collective defense capability. It brought together the political and military elements of security policy establishing cooperation with new partners in Central and Eastern Europe. The concept of collective defense capability reduced dependence on nuclear weapons and changed NATO's integrated military forces, including substantial reductions in their size and readiness, improvements in their mobility, flexibility and adaptability to different contingencies and greater use of multinational formations. Measures were also taken to streamline NATO's military command structure, and to adapt the Alliance's defense planning arrangements and procedures in the light of future requirements for crisis management and peacekeeping. [Ref. 1]

The Under Secretary of Defense for Acquisition and Technology, Dr. Paul G. Kaminski reflected this new concept of cooperation and collective defense capability in a speech in April, 1996:

In the post-Cold War world, we no longer face a single galvanizing threat such as the former Soviet Union. Instead, there is increased likelihood of our forces being committed to limited regional military actions—coalition operations—in which allies are important partners. In this environment, the U.S.-European security relationship remains vitally important to the welfare of people on both sides of the Atlantic. [Ref. 2]

In response to and in coincidence with these developments, NATO needs to modernize its procurement system to make it more capable of satisfying the alliance's needs. Since the late 1980s, militaries have been relegated to instruments of political ideology and have met with decreased funding, specifically by reducing defense procurements. Dr Kaminski points out that this response is consistent with historical norms. Procurement has always been the most volatile component of the budget in a draw down, because it is not necessary to purchase new equipment for a smaller force structure. [Ref. 2]

Until the recent Kosovo conflict, NATO forces have been deployed in limited scale engagements that are fought with smaller, more mobile, international forces. Thus, interoperability of systems through a common logistics thread has become the key to maintaining superiority of force structure.

## **B. NATO PROCUREMENT HISTORY**

NATO's procurement practices originated from the constant threat of maintaining equality with the procurement practices of the Warsaw Pact Nations. In the weapons

procurement area, Warsaw Pact nations retained numerical superiority over NATO nations in every weapons category. They continually produced more weapons than NATO, while spending less on defense [Ref. 3:p. 3]. In 1983, the International Institute for Strategic Studies estimated that the Warsaw Pact spent \$259 billion on defense while NATO spent \$343 billion. In essence, the Warsaw Pact nations were gaining on the West's technological advantage at a decreased cost. What made this spending difference of particular relevance was that the Western technological weapon advantage was compromised.

In 1986, United States Secretary of Defense Caspar Weinberger stated that the 10 plus years in Western technological superiority had fallen to a four to six year difference in practically every area. Despite increased spending and technological superiority, NATO nations were beginning to lose their distinctive advantage. Warsaw Pact procurement was centralized and gave a high priority to defense and evolutionary procurement practices.

NATO's procurement system lacked a centralized planning philosophy, despite the fact that the United States, the major NATO contributor, had a superlative procurement system. The U.S. accounted for 60 percent of the NATO's defense spending, yet the U.S. was not the forerunner in developing the NATO procurement system [Ref. 3:p. 6].

For the purpose of this thesis, NATO procurement should not be confused with the individual practices of the 19 nations and their respective procurement systems. The

historical data on NATO as a procurement entity for NATO's Commands should not be confused with the individual practices of the 19 nations.

NATO as an organizational unit, with few exceptions, does not procure weapon systems. All troops placed under NATO command come fully equipped, and their respective nations bear all costs, including weapons, ammunitions, food, lodging, etc. NATO weapons procurement focuses on communication assets and financing combined radar and warning systems, such as the Airborne Early Warning Aircraft (AWACS) that is registered under the Luxembourg flag to meet international agreements.

This thesis will describe and analyze the procurement system for the NATO Maintenance and Supply Agency (NAMSA), Allied Command Europe (ACE), and the NATO Consultation, Command, and Control Agency (NC3A) based on their respective directives. The NC3A will be reviewed from the NATO Security Investment Program (NSIP) perspective.

### **C. ACTIVITIES/FUNCTIONS**

#### **NATO Maintenance and Supply Agency (NAMSA)**

The NATO Maintenance and Supply Agency (NAMSA) is the executive arm of the NATO Maintenance and Supply Organization (NAMSO), which was created in 1958 by the North Atlantic Council (NAC). NAMSA exists to serve the NATO nations, and its

policies are determined by the NAMSO Board of Directors, composed of representatives of the Organization's 16 member countries, (all NATO nations except Iceland). [Ref 8]

Located at Capellen, Grand Duchy of Luxembourg, NAMSA is NATO's principal logistic support management agency. NAMSA provides logistic services in peace, crisis, and conflict to support weapon and equipment systems shared by NATO nations.

NAMSA exists to promote materiel readiness, improves the efficiency of logistic operations and effects substantial savings by consolidating procurement processes. To accomplish this mission, NAMSA discharges its responsibilities in the areas of supply, procurement, maintenance, calibration, technical support, transportation, engineering services, and configuration management for some 30 weapon and equipment systems.

[Ref. 7]

NAMSA's Charter, authorized within the scope of its mission, includes two functions:

1. Exercise and successfully negotiate agreements and contracts, and to dispose of property on behalf of NATO;
2. Employ administrative agreements with other NATO bodies.

However, NAMSA cannot conclude agreements and contracts beyond the purview of normal business and management procedures unless approved by the Board of Directors on a case specific basis. NAMSA also lacks authority to conclude international agreements, as international agreements could establish policy.

NAMSA's main facilities and the majority of its 1000 person workforce are located at Capellen. The Southern Operational Centre in Taranto, Italy, primarily serves Allied Forces Southern Europe (AFSOUTH) nations, and NATO's HAWK Logistics Management Office (NHMO) at Rueil-Malmaison, France supports the HAWK weapon system.

NAMSA's principal objective is to obtain the most favorable prices for materiel, supplies, and services on a competitive basis. The most favorable proposals meeting both the technical requirements and quality assurance criteria will be accepted regardless of their source. [Ref. 4:p. 18]

NATO nations are not obliged to use NAMSA to support their military equipment. However, it is in the best interest of these nations to employ a collaborative approach with other members of the Alliance when it proves to be more cost-effective than individual nations supporting their equipment independently. [Ref. 7]

### **Allied Command, Europe (ACE)**

Allied Command Europe is located at Casteau, Belgium. Its primary task is to safeguard the area extending from the northern tip of Norway to Southern Europe, including the Mediterranean, and from the Atlantic coastline to the eastern border of Turkey. This equates to nearly two million square kilometers of land, more than three million square kilometers of sea, and a population of about 320 million people. Within



Allied Command Europe, three Major Subordinate Commands report to the Supreme Allied Commander Europe (SACEUR):

1. Allied Forces North West Europe (AFNORTHWEST):

High Wycombe, United Kingdom.

2. Allied Forces Central Europe (AFCENT):

Brunssum, the Netherlands.

3. Allied Forces Southern Europe (AFSOUTH):

Naples, Italy. [Ref. 1]

### **NATO Consultation, Command, and Control Agency (NC3A)**

The NC3A provides central planning, system integration, design, systems engineering, technical support, and configuration control for NATO C3 systems and installations. In July 1996, the NC3A was created as part of NATO's strategy to streamline political and military structures and procedures. The Agency was formed through the amalgamation and rationalization of the former NATO Communications and Information Systems Agency (NACISA) and the SHAPE Technical Center (STC). As a result of this merger, the planning, research and development, and acquisition functions for NATO's Communications and Information Systems were centralized, enhancing the Alliance's capability to carry out its new crisis management tasks, while preserving its collective defense capabilities. The Agency operates from split locations at NATO

Headquarters in Brussels and in The Hague in the Netherlands. It employs approximately 450 people. [Ref. 1]

The NC3A agency supports common funded resources such as automated data processing equipment (ADP), communications, and satellite systems under the NATO Security Investment Program (NSIP). It is appropriate to discuss the NSIP at this point in the thesis since the majority of NC3A's procurement business falls under this program. This program is also utilized by ACE contracting personnel for contingencies to perform immediate infrastructure requirements.

The NSIP, formerly known as the Infrastructure program, was inaugurated at the 1951 meeting of the North Atlantic Council. The NSIP was based on the theory of interdependence and mutual aid in constructing military facilities having a high degree of common use or common interest. It had the practical purpose of building European defenses quickly, wherever they were required by military plans and without regard to the economic capability of the host governments. The United States, in support of the Alliance, was a heavy contributor in the early years until Western Europe recovered economically and the program emphasis shifted from mutual aid to integration and cooperative sharing of commonly funded materiel.

The NATO Security Investment Program does not fund some relatively important types of military facilities, such as general-purpose depots, barracks and other personnel support facilities. The Program does fund hardware items, such as communications equipment that are not normally found in national military construction programs. NATO

does, however, provide sites for HAWK (surface-to-air missile) batteries; yet NATO procures no weapon systems. [Ref. 5, Ref. 6]

The three major NSIP categories of airfields, communications, and Petrol, Oil and Lubricants (POL) facilities once accounted for about 75% of NATO's Security Investment work. Today, these categories represent less than 40% of the total per year because of NATO's requirements changed after the dissolution of the Soviet Union and the development of friendly relations between all of the nations of Europe. The Airfields category includes tactical airfields, maritime airfields, heliports and air weapons training installations, as well as their components such as runways, taxi tracks, lifting gear, communications, etc. In the POL category, the facilities include tanker discharge installations, pipelines, storage depots, and any necessary data and communications links. [Ref. 5]

The NSIP also covers strategic communications and PTT long-distance systems, e.g., cables, (both underground and submarine), microwave radio links, optical fiber cables, space satellites and terminals, high frequency (HF) broadcasts and maritime links, and other mobile communications facilities. [Ref. 5]

Two other important electronic categories are navigation aids (which include fixed and mobile tactical air navigation (TACAN) stations and naval navigation aids), and radar warning installations (which include air defense early warning radar and coastal and mine-watching radar with all associated communications links). [Ref. 5]

The Warning Installations category includes the NATO Air Defense Ground Environment (NADGE) and its follow-ons, e.g., the Air Command and Control System (ACCS). Together, NADGE and ACCS form a control and reporting system for the air defense of Allied Command Europe. [Ref 5]

#### **D. CONTROLLING FUNCTIONS**

Procurement rules are set by the member nations, through their representatives in the three budget committees and the NATO Financial Regulations (NFR). Only NAMSA has a Board of Directors, composed of national representatives of the nations that finance NAMSA.

The Board is chartered by NATO to govern NAMSA, and has authority over all functions. NAMSA merely implements policy on behalf of the Board. The Board has a representative from 16 member nations and Iceland [Ref 8]. The Board also has a subsidiary committee, called the Logistics and Finance and Administration Committee, and works under the direction of the Board. The Committees meet twice a year for approximately two to three days each session. Collectively, these entities are completely in control of the NAMSA. NATO is simply the umbrella organization, although some NATO funded requirements are also implemented by NAMSA.

In addition, there are multiple Weapon System Partnerships (WSP) that are groups of nations that gather to support a certain weapon system (like the Patriot missile system).

The WSPs have certain power; for example, they can mandate that only suppliers from participating weapon system partnership nations are eligible in procurement competitions.

The Supreme Headquarters Allied Powers Europe (SHAPE) also directly funds and monitors some high interest programs, and thereby directs the procurement activity in executing the associated contract. ACE also contracts for the Infrastructure Committee of NATO, following the NSIP rules for contingency purposes. [Ref. 9]

Financial Controllers direct all Headquarters activities funded through the NATO Military Budget in all NATO buying agencies. They control receipt and disbursement of funds from higher authority and maintain accountability. They exercise financial control of contracts, and conduct certain internal reviews and other financial controls necessary to account for international funds. They authorize commitment of funds within approved credits, when requested by Purchasing and Contracting (P&C) Officers and/or Fund Managers. They make payments when certified requests for payment are received from proper authorities (i.e., P&C Officers or Accountable Officers).

The Chief, Purchasing and Contracting supervises the Purchasing and Contracting Section. Purchasing and Contracting is responsible for all contracts and procurement actions taken by NATO Headquarters. The Chief monitors his or her staff and systems, and ensures that the highest quality of service is provided to their customers. They are responsible for contracting support for operations and exercises, and, in coordination with the Financial Controller, prepare contracting annexes to operational plans (OPLANs).

Working closely with the Financial Controller, the Chiefs ensure that the NATO Financial Regulations are observed in all aspects of Headquarters procurement activities.

As of this writing, all Headquarters (and Agencies) maintain separate supporting documentation for their procurement practices. The impact of this separate documentation will be analyzed in Chapter V. For background purposes, however, the governing document for NAMSA is the NR 251-R-1, ACE's main procurement document is the Directive 60-70, and the NC3A's main procurement document (for Infrastructure purposes) is the AC/4-D/2261. NAMSA procedures are currently being rewritten, and ACE is beginning a joint directive effort with Allied Command Atlantic (ACLANT) located in Norfolk. [Ref. 8, Ref. 9]

A commonality existing between the three organizations is the Established Financial Limits (EFLs). Bidding procedures of each organization are based on the EFLs which will be discussed in Chapter III.

### **Budgets**

There are three NATO financial budgets, each administered by committees seated at NATO headquarters in Brussels. The three budgets are The NATO Civil Budget, the Military Budget, and the NATO Security Investment Program (NSIP). The NATO Civil Budget (approximately \$100 million/year) supports the political headquarters; principally the building operation and maintenance (O&M) and the salaries of the International Staff. Most purchases made with this budget are satisfied using local contractors.

The NATO Military Budget amounts to approximately U.S. \$1 billion/year. This covers the operations and maintenance of the various NATO Military Headquarters, including SHAPE (Mons, Belgium), AFCENT (Brunssum, Netherlands), AFSOUTH (Naples, Italy), and the International Military Staff at NATO headquarters in Brussels. Although no military salaries are paid with NATO funds (military salaries are supplied directly by their respective nations), this budget pays for a wide variety of expenses, such as technical spare parts, electronic equipment, heating oil, automobiles, civilian salaries, etc. Most of the military budget committee (MBC) funds cover salaries and headquarter operating expenses because this budget is primarily for operation and maintenance (O&M). The military budget normally does not fund projects of even medium size unless the requirement is clearly only meant for peacetime use, a factor which precludes Infrastructure funding.

The NATO Security Investment Program (NSIP) is the largest and most extensive program for NATO acquisitions and is the most interesting for NATO-country industries. Despite recent defense budget decreases in Western nations, the NATO common program for wartime facilities and requirements is larger than it was 20 years ago. It now funds an average of U.S. \$1 billion per year of projects that supply NATO with equipment and services. [Ref. 5]

## **E. SUMMARY**

Chapter II presented a brief history of NATO, introduced the three procurement agencies and their areas of responsibility, NATO controlling functions, and financial budgets that support NATO procurement.

Chapter III will be a review of the procurement systems through the NATO Financial Regulations (NFR) and the procurement directives of NC3A, ACE, and NAMSA making comparisons with the U.S. system where appropriate.



### III. ACQUISITION SYSTEM OVERVIEW

#### A. INTRODUCTION

This Chapter summarizes the procurement processes of the Allied Command Europe (ACE), the NATO Maintenance and Supply Agency (NAMSA), and the NATO Consultation, Command, and Control Agency (NC3A) through their existing regulations or directives. However, the first regulation to be addressed in this chapter is the NATO Financial Regulation (NFR). Theoretically, the NFR is the procurement foundation for all other NATO procurement regulations. Second, through the ACE Directive 60-70 and the NAMSA Directive 251-R-1, the processes for ACE and NAMSA respectively will be addressed. The last directive this chapter addresses is AC/4-D/2261. This directive describes the process of the NATO Security Investment Program (NSIP) as it applies to the NC3A.

Comparisons will be made between the U. S. Federal Acquisition Regulation (FAR), the NFR, the ACE Directive 60-70, and the NAMSA Directive 251-R-1. Also, a comparison between the NSIP process and the U. S. Major Defense Acquisition Program (MDAP) will be made showing the similarities in *the process* of each program. The NSIP and U. S. MDAP are dissimilar as programs, however.

## **B. NATO FINANCIAL REGULATION**

The NFR is NATO's governing procurement regulation that provides the guidance for all procurement matters. However, before we address the procurement specifics of the NFR, the method that directs the procedures (based on dollar value) an activity shall use to contract is the Established Financial Limit (EFL). The EFL is established by Financial Controllers for all NATO's procurement commands to follow.

Table 1 shows the relative EFLs:

**Table 1**

### **Established Financial Limit**

<b>EFL</b>	<b>Amount (in U.S. \$)</b>
Level A	\$ 9,300
Level B	\$ 18,600
Level C	\$ 74,400
Level D	\$148,800
Level E	\$744,000

Source: ACE Directive 60-70, values subject to change

Article 20 of the NFR is designated as the procurement section. Article 20 sets the following procurement guidelines:

## **1. General Procurement**

Goods and services shall be procured from the most economical government or commercial sources within the funding member nations. If they cannot be obtained in the quantity or quality desired, they may be procured from other sources with the prior approval of the Financial Controller. Contracts in excess of EFL "B" (U.S.\$18,600) will be awarded by the Contract Awards Committee (CAC) [Ref. 13:p. 31].

The composition of the CAC is as follows:

- (1) Chairman: The Headquarters Financial Controller or designated representative;
- (2) Technical Member: A representative designated by the Chief of the staff for the element originating the requirement;
- (3) Member: An officer or an "A-graded" official to be designated for a period of at least two years (renewable) by the Commander (Head of NATO committee);
- (4) Secretary: To be designated by the Chairman.

The Purchasing and Contracting Officer, who may serve as the CAC secretary, presents the bids to the CAC, and reports and certifies the bid's administrative compliance. The CAC opens sealed bids (and the evaluation algorithms, if appropriate), and provides those bids to the technical member for evaluation. The technical member identifies all bids as either compliant or non-compliant, and provides recommendations from a technical viewpoint. Additional technical advice may be solicited. To ensure an objective technical evaluation, cost data should be segregated from technical data, wherever possible.

The CAC makes a written record of all bids received, and of the technical member's recommendations (this may involve annexing the written technical report to the CAC meeting minutes). The CAC then makes a decision based on the overall factors in the case, and awards the contract to the bidder best meeting the evaluation criteria. When this is not the lowest price, the contract award is considered to depart from standard procedures, and is subject to the approval authority and limitations detailed in the directive. When within local authority, approval for such a departure may be documented by including the Financial Controller's decision in the written minutes of the CAC meeting. [Ref. 10:p. 3-8]

## **2. Bidding Requirements**

(a) Single Tender. Goods and services estimated to cost less than EFL "A" (U. S. \$9,300) may be procured from known sources without competitive bidding.

(b) Restricted Bidding. Goods and services estimated to cost less than EFL "B" (U. S. \$18,600), may be procured subject to solicitations of at least three suppliers known to have met technical and commercial standards.

(c). Formal Bidding. Goods and services estimated to cost less than EFL "C" (U. S. \$74,400) may be procured subject to solicitations from at least five suppliers known to meet the required technical and commercial standards.

(d). International Bidding. Goods and Services estimated to exceed EFL "C" are subject to calls for bids that are sent to suppliers located in funding member countries, and known to meet the technical and commercial standards. NATO delegations, or any other national agency, shall be informed of all suppliers approached and will be provided with complete bidding instructions, technical specifications, etc. [Ref. 13:p. 32]

Table 2 provides a breakdown of the bidding procedures for the corresponding EFL:

**Table 2**  
**EFL/Bid Procedure**

<b>Established Financial Level (EFL)</b>	<b>Bid Procedure</b>
5% of Level A	Petty Cash/Advance accounts, single tender
Up to level A (US \$ 9300)	Single Tender
Up to level B (US \$18600)	Restricted bidding- solicitation of written or verbal bids from at least three qualified contractors
Up to, or equal to level C (US \$ 74400)	Formal bidding (FB)- solicitation of written sealed bids (IFB) from at least five qualified contractors. Bids must be provided in double sealed envelopes
In excess of level C Level D (US \$ 148800) Level E (US \$ 744000)	International bidding (IB)- submission of invitations for international bids (IFIB) to all NATO delegations

Source: ACE Directive 60-70

Suppliers approached in accordance with 2c and 2d will submit their bids in double sealed envelopes. Where required, bids will be submitted in two separated envelopes; one envelope will contain the technical data and the other will contain price data. [Ref. 13:p. 32]

For open-ended contracts, the total annual (maximum) amount will decide the EFL. For single source contracts, the total amount cannot be sub-divided and will determine the EFL. [Ref. 13:p. 32]

Departures from these procedures must have the approval of the Financial Controller. When the amount exceeds EFL "E" (U. S. \$744,000), the Civil Budget Committee (CBC) must be notified. [Ref. 13:p. 32]

Where the lowest bid is not accepted and the amount exceeds EFL "E," the award of the contract will be upheld pending the Financial Controller's reviews and comments. The comments will be forwarded to the Chairman, Civil Budget Committee. The CBC must render its decision within a two-week period. [Ref. 13:p. 34]

### **3. Contracts**

The following procedures regarding contracts are to be followed: Contracts shall:

- Be prepared by the purchasing and contracting officer strictly in accordance with his instructions;
- Be subject to financial approval;
- Be signed by the purchasing and contracting officer on behalf of the Secretary General;

- Be co-signed by the Financial Controller or the Deputy Financial Controller when the value or the modified value exceeds EFL "B;"
- Include a standard clause that the validity of the contract is conditional on the dual signature requirement of the Financial Controller. [Ref. 13:p. 34]

The above information is the guidance that is provided by the NFR (Article 20) for NATO procuring commands to follow. This is NATO's version of the U. S. FAR and clearly there is less guidance for NATO procurement commands to follow. A further comparison will be made later in this chapter and the analysis will occur in chapter V.

ACE procurement procedures will be addressed next.

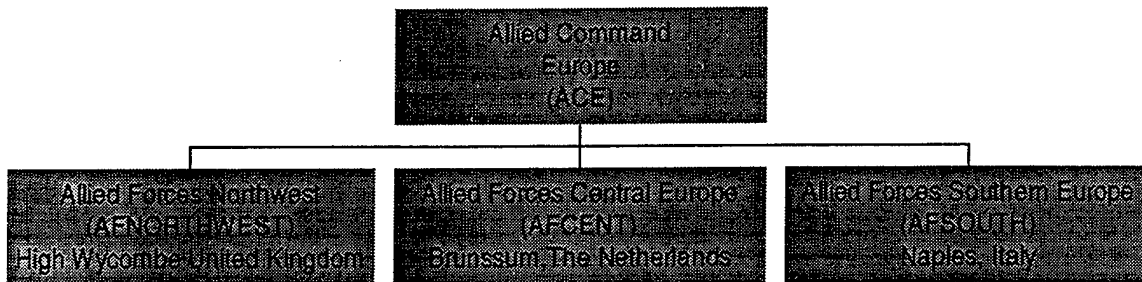
## **C. ACE PROCUREMENT**

### **1. Customer Base**

The ACE Directive 60-70 procedures govern all NATO commands in the ACE chain of command as directed by the chart on the following page:

**Chart 1**

**ACE COMMANDS**



**Source: NATO Handbook**

These procedures are also written for the Reaction Forces (RFAS) Air Staff, the NATO Airborne Early Warning Force (NAEWF), the ACE Rapid Reaction Corps (ARRC), Standing Naval Force Mediterranean (STANAVFORMED), Standing Naval Force for mine countermeasures (STANAVFORCHAN), and ACE Mobile Forces, Land (AMF(L)). [Ref. 1]

## **2. Types of Procurements**

The Purchasing and Contracting Officer will determine which form of procurement and contract vehicle best suits the requirement. Options include, but are not limited to:

- a. Petty cash procurement using advance accounts. When authorized by the local Financial Controller, and in accordance with criteria to be approved by the P&C Officer, purchases totaling less than 5% of the Established Financial Limit (EFL) "A" may be procured using advance accounts. Where permitted by host



nation law, local arrangements should ensure that such transactions do not include any Value Added Tax (VAT) or other taxes for which the Headquarters is exempt. Advance accounts are actually a payment method rather than a contract vehicle; the procurement itself is a retail ("over-the-counter") purchase made without a written contractual document. Such procurements are executed under authority of the P&C Officer or their designated representative, and are limited to items that are available for immediate delivery. Detailed instructions for administering advance accounts are included in ACE Directive 60-45. [Ref. 10:p. 3-2]

b. Credit card purchases. This is a payment method rather than a contract vehicle. Local Financial Controllers may authorize P&C Officers to use credit cards to order goods and services. Credit card accounts must withhold payments to credit card companies for non-receipt, non-conformity, or other disputes. Standing payment orders should not be used with credit card companies. After approving the commitment via normal channels, the P&C Officer may use the credit card to ensure rapid delivery and improve contractor responsiveness. Using the credit card does not relieve the P&C Officer of responsibility for preparing and executing the necessary contract and commitment documents. Similarly, credit card payment should not disqualify the Headquarters from receiving prompt payment discounts that might otherwise be available. The P&C Officer is responsible for reconciling credit card invoices and matching invoice line items to individual commitment numbers. Credit cards may not be provided to other

Headquarters personnel, and are specifically prohibited for individual transportation, lodging and subsistence costs associated with temporary duty travel. [Ref. 10:p. 3-3]

c. Delivery order under an existing open-end contract (OEC). P&C Officers may negotiate and award open-ended contracts to provide indefinite quantities of supplies and services. Such contracts must limit the total value of orders that may be placed; this total determines the competition requirement. P&C Officers may in turn delegate individuals to order on their behalf. Orders may only be placed for those items specified in the original contract. Procedures must be established to ensure that valid commitments for funds are registered prior to placing orders. [Ref. 10:p. 3-3]

d. Individual purchase order under a previously competed basic ordering agreement (BOA). Using the established competition thresholds and procedures, P&C Officers may establish agreements on prices and conditions for ordering supplies and services. BOA's may be competed on the basis of a "market basket" of anticipated commodities characteristic of Headquarters requirements. These agreements include an estimated maximum total order value over a specified time (including option years), thus limiting the amount that may be ordered under that agreement without further competition. P&C Officers may utilize BOA's executed by other NATO Headquarters and organizations, on the condition that

competitive requirements were satisfied when executing the original agreement. National BOA's (such as U.S. GSA contracts) may be used. However, such agreements are not presumed to have been awarded in accordance with NATO regulations; they should be considered on the same competitive basis as any other commercial source. [Ref. 10:p. 3-3]

e. Individually competed/awarded purchase order (PO). The primary contractual vehicle used by Headquarters is the purchase order (PO). The PO will contain all necessary specifications, technical details, delivery and payment terms, and contractual clauses required before ordering supplies and services. The document includes signature blocks for both the P&C Officer and Financial Controller. The document states that the validity of contracts in excess of level B of the EFL (U. S. \$18,600) is contingent upon both approval signatures. Subject to concurrence by Financial Controller, approval and signature may be provided via electronic means. [Ref. 10:p. 3-4]

f. Utility contract/service arrangement. Contracts for providing of utility services (i.e.- electricity, water, telephone service) are normally not priced; they are structured on payment for such services and standard (or discounted) rates in accordance with usage. Where monopolies exist, local Financial Controllers may routinely grant competitive waivers or sole source authorizations for utility contracts, regardless of total estimated value. Utility contract waivers may be

established on a standing basis until such time as competition is available.

[Ref.10:p. 3-4]

### **3. Procedures**

#### ***a. Sourcing***

NATO-member Government sources are relied on as much as commercial sources, and may be used when considered advantageous to the organization.

When neither qualified commercial sources or NATO member government sources are available, the following sources should be considered in sequence with prior approval from the Headquarters Financial Controller:

- (1) Commercial or governmental sources from non-funding NATO nations;
- (2) Commercial sources from nations participating in the Partnership for Peace program;
- (3) Commercial sources from non-NATO, non-Partner nations upon whose territory NATO Headquarters or forces are deployed;
- (4) Commercial sources from other non-NATO, non-Partner nations. [Ref. 10:p. 2-1]

***b. General Policies***

The Chief, Purchasing and Contracting is responsible for administering and overseeing the headquarters procurement function, while Contracting Officers are responsible for contracts issued under their signatures. [Ref. 10:p. 2-1]

Headquarters normally procures goods and services from the most economical government or commercial sources available within the NATO nations funding that headquarters or program. Full and open competition is the standard method of procurement and is used to the greatest extent practicable. Contracts should not award suppliers exclusive rights to supply goods and services to any Headquarters or organization. [Ref. 10:p. 2-2]

Payment for supplies or services received is contingent upon the contractor fulfilling all contractual obligations in accordance with contract terms. Contracting officers cultivate positive business partnerships with suppliers; doing so ensures fair treatment in implementing contract provisions. [Ref. 10:p. 2-2]

***c. Period of Contract Award***

Open-end contracts are normally awarded for a one-year period. When included in the terms of the invitation for bids, open-end contracts may provide up to four one-year extension options. Contract authority must be obtained from the Military Budget Committee (MBC) to enter into multi-year financial obligations not fully supported by current year budget credits. Contract periods may extend

beyond the current fiscal year, provided that the terms do not financially obligate NATO beyond the current fiscal year. [Ref. 10:p. 2-2]

#### **4. Market Survey/Bid Procedures.**

Purchasing and Contracting Officers should become experts on market conditions in order to ensure quotes are reasonable.

All contracts exceeding Level "B" are to be awarded by the Contract Awards Committee (CAC). Purchasing and Contract (P&C) Officers may elect to invite more than the minimum required number of bidders, or may use competition for awarding contracts below the minimum bid criteria detailed above.

Purchasing and Contracting Officers will maintain a list of qualified potential bidders for supplies and services. For international bidding, national delegations will be notified of the solicitation, and will be invited to propose bidders.

a. The authorized requestor is ultimately responsible for providing a complete and detailed technical specification of the requirement. The P&C Officer reviews the technical specification for sufficiency, and works with the Originator, as appropriate, to ensure that the stated specifications satisfy the operational requirement. The P&C Office holds final authority over solicitation wording, and ensures that the specification enables the maximum degree of fair and open competition. [Ref. 10:p. 3-5]

b. Procuring supplies from the most economical source may follow more than one methodology. Lowest price is the principal indicator of economy; however, best value is not always indicated in the basic sales price. Other tangible elements, including delivery terms, warranty conditions, and forecast logistics support costs need to be analyzed and evaluated to determine which bid actually represents the most economical option. In those cases in which contract award is based on overall lifecycle costs, factors used in calculating these costs must be determined before the bid solicitation. The algorithm should be safeguarded by the P&C Officer in a sealed envelope to be opened by the Contract Awards Committee (CAC) during the contract award bid evaluation phase. [Ref. 10:p. 3-5]

c. The P&C Officer establishes a bid schedule, and provides contractors detailed instructions on preparing and submitting bids.

d. Formal bids are submitted in writing, in double sealed envelopes. Where considered helpful in evaluating bids, contractors may be provided standardized reply formats. Bids may also be required to separate pricing and technical data.

e. The P&C Officer maintains custody and security of sealed bids as they are received. At the appropriate time, sealed bids are presented to the CAC for opening, evaluation, and award.

f. The P&C Officer ensures the integrity of the competitive process, and safeguards the confidentiality of bid information. No contractor is provided pricing details or technical data from another contractor's formal or informal bid.

#### **5. Authority to Approve Exceptions/Departures from procedures**

Cases may occur in which the interests of NATO are not best served by routinely applying procedural regulations (as per the NATO Financial Regulations and their Implementing Procedures and the ACE Directive 60-70.) In well-justified cases, the Purchasing and Contracting Officer may request authority to deviate from standard procedures. Table 3 provides the limitations that apply in approving exceptions or waivers:

**Table 3**

#### **EFL/Level of Authority**

<b>Financial Limit (EFL)</b>	<b>Authority</b>
Level A through D	By delegated authority, waivers may be granted by the Financial Controller of the Headquarters concerned
Greater than Level D, Less than Level E	ACE Financial Controller
Level E or above	Submitted via ACE Financial Controller to the MBC

Source: ACE Directive 60-70



## **6. Justification of Exceptions and Waivers**

All requests for exceptions or waivers must be fully justified, and contract files must retain justification documentation. All such requests must be decided by the approving authority on a case-by-case basis. Requests for exceptions should be based on the Headquarter's inability to comply with competitive requirements; urgency caused by lack of timely action is not a valid basis for such requests. Wherever possible, limited bidding should be used prior to resorting to sole source procurements. Examples of potential reasons for approving deviations include:

- (1) Operational urgency;
- (2) Constraints on competition due to security considerations;
- (3) Vendors which hold exclusive patent, franchise, or licensing rights;
- (4) Legitimate technical requirements that preclude alternative products or solutions;
- (5) Legal constraints arising from Host Nation law or international agreements;
- (6) Insufficient qualified bidders (the reason for this condition must be fully explained in the justification);
- (7) Construction contracts including substantial labor elements (in such cases, bidding may be limited to firms licensed/authorized to conduct business in the country in which the construction takes place). [Ref. 10:p. 3-7]

## **7. Negotiations**

Procurement by negotiation is considered a legitimate method of contracting. When justified, Financial Controllers may authorize procurement by negotiations as a departure from procedures. [Ref. 10:p. 3-7]

## **8. Contract Award/Contract Awards Committee Procedures**

After the Financial Controller approves funding, the P & C Officer decides which contractor offering technically compliant goods or services will be awarded contracts valued below EFL level "B." Every effort should be made to ensure that customers are fully satisfied with the quality of goods or services proposed in response to their requests. Originators and authorized requestors do not have authority to select sources. However, they may cancel a purchase request at any time prior to contract award. [Ref. 10:p. 3-7]

All contracts in excess of level B (or lesser amounts as deemed appropriate by the Headquarters Financial Controller) will be awarded by a Contract Award Committee (CAC) according to NFR Article 20. [Ref. 13]

## **9. Contract Processing/Approval Procedures**

a. Approval by Financial Controller/Fiscal Officer. After the contractor has been selected, the commitment request is prepared and submitted to the Fiscal Officer or Financial Controller for approval. This is normally filed by the P&C Officer who ensures that the data on the purchase order form is complete. If the procurement is within the "not to exceed" value allocated by the Fund Manager,

the document is forwarded to the Budget and Finance Division for signature. This may also be accomplished by forwarding the commitment request data electronically for the Fiscal Officer's or the Financial Controller's approval. Where the cost exceeds the amount allocated by the fund manager, the package must be routed via the Fund Manager for supplemental funding or for reconsideration of the procurement. Contracts or modified contracts with a total value exceeding level B must be co-signed by the Financial Controller, and must stipulate that contract validity requires both signatures. [Ref. 10:p. 3-9]

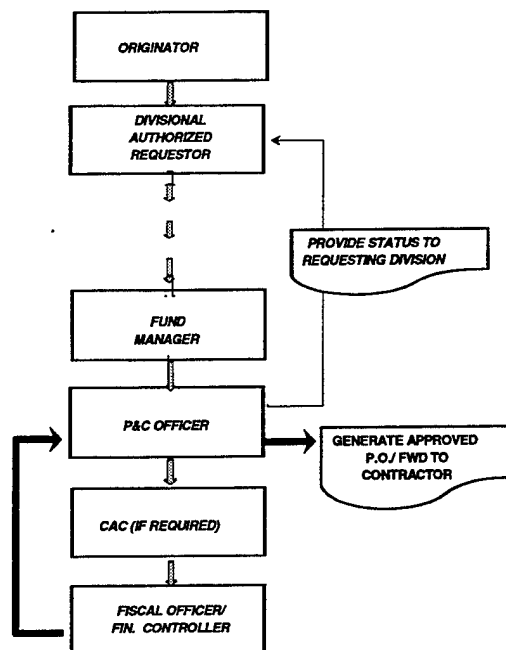
b. Approval and execution of contract by P&C Officer. After a commitment to support the pending contract is approved, the P&C Officer may execute the document by signing and forwarding the contract to the contractor. Contract files are not destroyed until all contractual obligations have been satisfied. The purchase order document supports the funded commitment, and must be retained on file (or in digital form in an electronic archive) for at least three years following guidelines established by the International Board of Auditors for NATO certification of the financial statement for the fiscal year of the transaction. When required by host nation laws, this retention period may be extended. [Ref. 10:p. 3-9]

c. Countersignature by a contractor. The following categories of contracts require the contractor's countersignature to indicate acceptance of terms:

- (1) Contracts in excess of level B;
- (2) Contracts which specify provision of goods or services in multiple installments (regardless of value);
- (3) All construction contracts (regardless of value). [Ref 10:p. 3-9]

Chart 1 illustrates the procurement process flow at ACE.

**Chart 1**  
**Procurement Process Flowchart**



Source: ACE Directive 60-70

## **10. Contract Administration**

P&C Officers are responsible for administering all aspects of contracts issued by their office. They implement systems to monitor execution of outstanding contracts, and provide status information to customers (either by providing specific information or reports, or providing on-line access to contracting data). The Officers regularly follow-up on overdue contracts (at least monthly), and expedite orders as required. The P&C Officer exercises sole authority to contact contractors regarding administration matters; however, this authority may be delegated.

During the contract period, the P&C Officer may modify contracts by negotiating and issuing a contract modification. Administrative changes with no financial implications need not be processed via Fund Managers and Budget/Finance (BUDFIN) Division.

The Chief, Purchasing and Contracting monitors all contractor's performance as well as the staff's performance. The Chief ensures performance data is available regarding processing of purchase requests, contractor performance, and invoice processing. Performance may be monitored by automated reporting, or by statistical sampling techniques.

The P&C Officer is responsible for safeguarding the Headquarter's interests, and is the sole authority for settling contractor disputes. When the P&C Officer determines that the contractor has not fulfilled the terms of a contract, the contractor is declared to be in default. Where justified by circumstances, the P&C Officer may designate the

contractor as an unqualified source of supply until the contractor demonstrates that the identified deficiency has been corrected.

When authorized by contract terms, the P&C Officer may protect the Headquarter's interests by exercising contractual right to recover liquidated damages. The P & C Officer provides the contractor written notification of this intention, and invites the contractor to justify the disputed actions by registered mail within 10 calendar days of receiving the "show cause" letter. This declaration is considered final if the contractor fails to remedy the situation or adequately defend the disputed actions in response to said letter.

To further ensure validity of an offer and satisfactory performance, P&C Officers may require contractors to provide a bid or performance guarantee in the form of a monetary deposit or bond. This deposit must be provided to BUDFIN Division for safekeeping and accounting during the contract period (and in some cases, the contract warranty period). After satisfactorily fulfilling the contract terms, the P&C Officer promptly refunds the contractor's deposits or bonds. [Ref. 10:p. 3-10]

## **11. Reimbursable Procurements**

Headquarters may execute procurement actions on behalf of other NATO Headquarters or other authorized agencies (e.g.- national support units, etc.). Purchasing and Contracting Officers, in coordination with Headquarters Financial Controllers, are responsible for affirming that authorized agencies are eligible to receive such support (particularly with regard to VAT exemptions granted by Host Nations).

a. External agencies requesting contracting support may determine the items or services to be purchased and the sources to be utilized for nationally-funded procurements. Approval requirements for departures from NATO procedures do not apply to nationally-funded transactions. All Military Budget-funded procurements must follow the NATO Financial Regulations and ACE Directives.

b. ACE Headquarters may assess administrative fees for reimbursable work performed for non-NATO bodies or nations. In principle, this fee should be based on the administrative fees charged by that nation for performing similar work for NATO. Such fees will be treated as miscellaneous income in accordance with the NFR and ACE Directives. [Ref. 10:p. 3-12]

This section provided the organizations that procure with ACE Directive 60-70, and the process dictated by the directive. The following section addresses the NAMSA procurement process.

#### **D. NAMSA PROCUREMENT**

NAMSA, as indicated previously, is an independent NATO procuring agency that acquires supplies and services using international competitive bidding procedures as directed by their Directive NR 251-R-1. Although following similar rules as ACE, NAMSA is different because it is an independently chartered organization of NATO and

is governed by its own Board of Directors. [Ref 8] NAMSA's customer base is all alliance nations as well as Iceland.

## **1. Procedures**

### ***a. Sole Source***

Material or services may be purchased from a single source if they are only available from one authorized source. In this case, a certificate is required from the official administering the source file, or from the procurement officer authorized by the Chief of Procurement.

Additionally, single sources are used if competitive procedures would delay the provision of goods or services, (e.g., an emergency requirement exists as defined by the user, an existing contract is beneficial to NAMSA, or the extended contract provides a lower price.)

### ***b. U.S. Military Sourcing***

Procurement from United States Military sources can be made in two cases:

- (1) Requisitions submitted as a "fill or kill" requirement; or,
- (2) Requisitions submitted as "fill or buy," but limited to single source (foreign military sales), routine requirements items that are considered normal stock and can be purchased under "fill or buy."

[Ref. 4:p. 25]



*c. Competitive Sourcing*

NAMSA maintains a source file that the Procurement Division Contracting Officer uses under normal circumstances to determine who the Agency will contact for solicitations [Ref. 4:p. 25]. Solicitations are rotated to ensure an equitable distribution of solicitations over time. Procurement is normally limited to firms located within the NATO Maintenance and Supply Organization (NAMSO) member countries. If the sources selected are inadequate to foster competition, the Chief of the Procurement Division may request the authorities of member countries to provide additional information on more qualified sources. [Ref. 4:p. 26]

**2. Programmed Maintenance Procurement**

The list of firms invited to bid for each RFP is established by NAMSA. The number of firms to be consulted from each country is determined by the General Manager of NAMSA. The request for the names of qualified firms, unless specifically directed by Headquarters, is sent by the Procurement Division to the Board of Directors at least 45 days prior to the RFP's mailing date.

Contract duration for programmed maintenance cannot exceed three years. As requirements dictate, at the expiration of this contract a new contract for an additional three-year period can be authorized. For competitively bid contracts,

however, NAMSA must prove to the General Manager, in advance of contract expiration that:

- Problems raised by transferring to another contractor would create additional expenses and/or unacceptable delays;
- After inspecting the contractor's books, that prices are fair, reasonable, and advantageous to the NAMSA;
- The contractor has performed satisfactorily. [Ref. 4:p. 27]

As soon as it becomes apparent that the programmed maintenance contract will be extended, the procurement division determines how and when to complete the re-procurement. The following will be considered:

- Are other suppliers able to satisfy the requirements;
- Expiration date of current contract;
- Time required to obtain and analyze a new proposal from the current contractor;
- Time required to complete a competitive procurement;
- Time required for current contractor phase out;
- Phase in time of the new contractor. [Ref. 4:p. 28]

### 3. Request For Proposals

Requests for Proposals (RFPs) shall be framed so that NAMSA acceptance implies a *fixed price contract*. For supplies, the RFP stipulates that fixed unit prices and a specific delivery schedule are to be provided. For services, the RFP establishes the maximum and minimum order quantity in terms of units or hours. For services that cannot be defined, the RFP will request quotations based on fixed hour rates. In maintenance contracts, the contractor is requested to provide the spare parts to prevent or terminate work stoppage. The RFP stipulates that the contractor must identify all costs associated with spare parts, and that approval is required in advance of purchase. Where an RFP implies a contract that exceeds the Level B dollar value, potential bidders must receive detailed information on all criteria to be used in proposal analysis.

When solicitors submit similar proposals, the contract award is made to the offeror whose country has the worst economic condition in respect to the position of other nations, provided that the offer does not exceed the lowest offer by more than 10 to 20 percentage points (as determined by the total amount of the lowest offeror's proposal).

Between the time the RFP is mailed and the time of award, only designated personnel deal with prospective contractors. Usually, designated personnel include buyers and their superiors. This policy is necessary to avoid actions that could render a competitive advantage to one firm's country over another. [Ref. 4:p. 31]

#### **4. Opening and Selection of Proposals**

All proposals are regarded as commercially sensitive. Only personnel with a “need to know” designation have access to the proposals, most notably the personnel involved with the procurement. After the closing date of a competitive solicitation, all proposals are opened by a rotating committee of two members. Any proposals received after the closing date are automatically rejected. [Ref. 4:p. 32]

Authorized proposals are examined by the Procurement Division. The examination ensures that offeror’s terms are consistent with the requirement. Price comparisons involving more than one currency are converted to a single currency. The exchange rates used to convert prices are the medians between the buying and selling rates of the Brussels “*Marche Reglemente*” on the first banking day of the week in which the bid submission closes. Additional information is gathered by the Chief of the Procurement Division for any proposal judged to be unrealistic, uneconomical, or obviously in error. [Ref. 4:p. 33]

#### **5. Pre-Award Contacts with Contractors**

Requests for Proposals should avoid the need for pre-award negotiations. However, pre-award negotiations may be used to evaluate proposals regarding a contract for services, or when all proposals are deemed unsatisfactory. Pre-award negotiations require prior approval from the Chief of the Procurement Division. All negotiations must be conducted so as not to place any advantage on one offeror over another. [Ref. 4:p. 33]

## **6. Selection of Best Proposal**

The most advantageous, responsive and responsible proposal will be selected after comparing all qualified proposals. Price, delivery schedule, and technical capability are considered. Transportation costs are not considered, unless specifically requested by a customer country. The final place of delivery must be stated and included in the RFP.

[Ref. 4:p. 33]

## **7. Contract Award Committee Recommendation of Award**

Proposals are considered by an award committee as defined in the NAMSA procurement regulations. The Contract Award Committee, as mentioned previously, serves on a rotating basis. The award committee functions similar to the US Source Selection Evaluation Board. In general terms, they ensure that NAMSA procurement regulations have been satisfied for the contract award in question.

## **8. Contract Award**

The award shall be made by the official with signature authority as designated by the General Manager of NAMSA.

## **9. Contract Administration**

The Chief of the Procurement Division and a delegated representative ensure that the contractor complies with all contractual terms and conditions. Whenever there is indication that the contractor is unable to meet the requirements, a registered letter (a "cure notice") will be delivered to the contractor. Upon receipt of the letter, the

contractor has 10 days to either deliver the goods or services or show cause as to how to cure the expected delinquency. [Ref. 4:p. 56]

In cases of actual delinquency, (i.e., the contractor has failed to respond or has unsatisfactorily responded to the "cure notice"), a "show cause" letter will be sent. The letter will contain a specified time for the contractor to reply to NAMSAs indicating why the contractor should not be held in default under the terms of the contract. [Ref. 4:p. 56]

In the event the contractor fails to respond to the "show cause" letter, the Contracting Officer or his representative will notify the Chief, Procurement Division, who will take the necessary and appropriate actions. [Ref. 4:p. 56]

This concludes the descriptive portion of NAMSAs procurement as addressed in their regulation 251-R-1. The following section compares the U. S. FAR, the NFR, ACE Directive 60-70, and NAMSAs Directive 251-R-1.

## **E. REGULATION/DIRECTIVE COMPARISONS**

Table 4 compares sections of the U.S. FAR, the NFR, ACE Directive 60-70, and NAMSAs Directive 251-R-1. This comparison indicates which sections of the NFR, ACE or NAMSAs Directives are equivalent by article, section, or chapter to the U.S. FAR. Parts 1-4 and the reserved sections of the FAR are not listed in this Table. This comparison indicates that the NAMSAs directive is more comprehensive than the NATO

Financial Regulations or ACE Directive 60-70. This Table will be analyzed in Chapter V.

**Table 4**

**US/NATO Regulations & Directives Comparison**

FAR	NFR	ACE 60-70	NAMSA 251-R-1
Part 5 – Publicizing Contract Actions			
Part 6 – Competition Requirements	Article 20		Chapter 12 – Solicitation
Part 7 – Acquisition Planning			
Part 8 – Required Sources of Supplies and Services		Section 2-2	Chapter 12 – Solicitation, Chapter 10 - Potential Sources
Part 9 – Contractor Qualifications			
Part 10 – Market Research		Section 3-3	Chapter 10 - Potential Sources
Part 11 – Describing Agency Needs			
Part 12 – Acquisition of Commercial Items		Section 3-2	
Part 13 – Simplified Acquisition			

**TABLE 4 cont.**

Procedures			
Part 14 – Sealed Bidding		Section 3-3	Chapter 12 – Solicitation, Chapter 13 - Opening and Selection of Proposals
Part 15 – Contracting by Negotiation		Section 3-3	
Part 16 – Types of Contracts		Section 3-2	Chapter 17 – Terms of Contractual Instruments
Part 17 – Special Contracting Methods			
Part 19 – Small Business Programs			
Part 22- Application of Labor Laws to Government Acquisitions			
Part 23 – Environment, Conservation, Occupational Safety, and Drug-Free Workplace			
Part 24 – Protection of Privacy and Freedom of Information			
Part 25 – Foreign Acquisition			Chapter 12 – Solicitation, Chapter 13 - Opening and Selection of Proposals
Part 26 – Other Socioeconomic Programs			
Part 27 – Patents, Data, and Copyrights			
Part 28 – Bonds and Insurance			Chapter 21 – Administration of



**TABLE 4 cont.**

			Contractual Instruments
Part 29 – Taxes			Enclosures 1,2,3,4
Part 30 – Cost Accounting Standards Administration			
Part 31 – Contract Cost Principles and Procedures			
Part 32 – Contract Financing			
Part 33 – Protests, Disputes, and Appeals			Chapter 23 – Disputes, Enclosures 1-5
Part 34 – Major System Acquisition			
Part 35 – Research and Development Contracting			
Part 36 – Construction and Architect- Engineer Contracts			Chapter 12 – Solicitation (maintenance)
Part 37 – Service Contracting			
Part 39 – Acquisition of Information Resources			
Part 41 – Acquisition of Utility Services			Chapter 12 – Solicitation (maintenance)
Part 42 – Contract Administration		Section 3-7	Chapter 21 – Administration of Contractual Instruments
Part 43 – Contract Modifications			

**Table 4 cont.**

Part 44 – Subcontracting Policies and Procedures			Chapter 12 – Solicitation (maintenance)
Part 45 – Government Property			
Part 46 – Quality Assurance			Chapter 21 – Administration of Contractual Instruments
Part 47 – Transportation			Chapter 12 – Solicitation, Chapter 13 - Opening and Selection of Proposals
Part 48 – Value Engineering			
Part 49 – Termination of Contracts			Chapter 21 – Administration of Contractual Instruments
Part 50 – Extraordinary Contractual Actions			
Part 51 – Use of Government Sources by Contractors			

Developed by the researcher

The NFR, ACE Directive 60-70, and NAMS Directive 251-R-1 were compared in content to the U.S. FAR. Based on this comparison, the NAMS Directive is more comprehensive with regard to procurement issues than the NFR or Directive 60-70.

The remainder of this chapter will review the NATO Security Investment Program as it applies to the NC3A and its governing directive AC/4-D/2261.

## **F. NC3A PROCUREMENT (INFRASTRUCTURE)**

The NC3A procures satellites, communications, and automated data processing (ADP) equipment for all the NATO Commands under the NATO Security Investment Program (NSIP).

The NATO Security Investment Program is a similar process (by design) to the United States' Major Defense Acquisition Program (MDAP), (although not close in terms of monetary value.) NATO Security Investment Programs, on average, spend about U.S. \$1 billion per year. The program is driven by a Capability Package (CP). A CP is a combination of national and NATO funded infrastructure, associated costs and manpower that, together with the military forces and other essential requirements, enable a NATO Commander to achieve a specific Military Required Capability.

The CP directly links military requirements with established force goals. It focuses on activities essential to the new strategy, the resultant forces and command structure. It addresses overall resource implications, both national and international, identifying all elements necessary for the package to function. The CP is presented in a three-stage, ten-section document that derives and presents a Required Capability, analyses the related resource implications, and explains the operational justification for the proposal. [Ref. 37:p. 2-2].

The CP must be endorsed by the Senior Resources Board (SRB), and approved by the North Atlantic Council (NAC) before implementation can begin. Further research on

CPs can be found in the *ACLANT Capability Package and Infrastructure Planning Manual*.

The remainder of this chapter will discuss the procedures under the NSIP that the NC3A uses to procure common funded resources for all the NATO commands. (The NSIP is also utilized by ACE for infrastructure purposes during contingencies).

## **G. NSIP INTERNATIONAL COMPETITIVE BIDDING (ONE STEP)**

The One Step Method is the basic procedure that the NC3A utilizes for International Competitive Bidding. It is designed to meet operational needs in a timely, cost-effective way. It also provides an environment to maximize participation by qualified firms, and to avoid discrimination by participating countries. [Ref. 11:p. 1]

### **1. Notice of Invitation of Bids**

A Host Nation issues a Notification of Intent to invite bids to the diplomatic representatives of participating countries. Copies are then forwarded to NATO delegations of participating countries and the International staff. Firms must make their intent to bid within 28 days of the notification. [Ref 11:p. 7] For bids requiring security clearances, the notification requirement is 35 days. Pending committee agreement, an accelerated 21-day bid notification requirement can be instituted. However, if the Host Nation proposes more than a seven-day extension past the 21-day accelerated requirement, normal procedures will apply.

Firms from any participating nation are eligible to participate in this process. The contractor nation's government must submit a "Declaration of Eligibility" to the Host Nation's firm. The contractor's government must also declare that it would consider the contractor a competitive entity if similar work were to be performed in the contractor's nation. More information on the eligibility of a firm can be found in the AC/4-D/2261.

The contents of the notification of intent to bid include:

- (a) A summary description and rough cost estimate of the project, an indication of the reference number of the NATO document containing the request to commit funds (or the pre-financing statement), the reference number of the International staff's screening report, how the contract will be divided, and the anticipated time to complete the contract;
- (b) The final date that firms must formally express the desire to bid;
- (c) The date the host nation intends to distribute the "cahier des charges" (i.e., bidding documents issued by a Host Nation containing technical, administrative and contractual requirements);
- (d) The intended bid closing date;
- (e) The bid validity date with applicable procedures after the validity date;
- (f) Security classifications, if required;
- (g) Address and phone number of responsible agency or bureau handling the call for bids;
- (h) Project reference number;
- (i) Method of bidding (one, two, or three step procedure);

(j) Life cycle considerations;

(k) Whether the Host Nation intends to use a questionnaire for financial and technical screening of firms [Ref. 11:p. 7]

Late nominations can be accepted by the Host Nation, however, all other nominees must be afforded the same extended negotiated time acceptance.

## **2. Financial/Technical Screening**

A general financial and technical screening of any firm can be conducted by the Host Nation. However, the contractor's NATO diplomatic representative must be advised in advance. The contractor's response time is 28 days from the date the diplomatic representative is notified. Firms can be automatically eliminated from the bidding for failure to respond or for insufficient responses. [Ref. 11:p. 10]

## **3. Competition Reduction**

The Host Nation can reduce the number of competing firms if it determines that the number of firms is too high to efficiently handle the contract bidding. The Host Nation must develop and propose a viable method to reduce the competitors; it must be approved by the committee as soon as possible after the firms formally express their desire to be considered for bidding. [Ref. 11:p. 12]

#### **4. Contract Types**

Unless otherwise agreed by the Committee, *fixed-priced* contracts or *fixed-price contracts with price variation* are used. If a fixed-price with price variation contract is awarded, it must be specifically cited in the “cahier des charges” and must apply to all bidders. Cahier des charges are bidding documents issued by a Host Nation containing technical, administrative, and contractual requirements and conditions. Price variations cannot be restricted to work performed in the Host Nation, and must also apply to cost variations in the contractor’s country of origin. [Ref. 11:p. 3]

#### **5. Bid Execution**

Bids must normally be received not less than 84 days before the date of “cahier des charges” for complicated projects, and not less than 42 days in advance for other contracts and supplies [Ref. 11:p. 11]. The Host Nation is the determining factor for distinguishing a complicated (or large scale) contract; the determination level cannot be disputed by the contractors. The Host Nation must provide notification of the “cahier des charges” to the contractor’s diplomatic representative via the most expeditious means [Ref. 11:p. 12].

#### **6. Bidder’s Conference**

Bidder’s conferences for clarification purposes may be held at the discretion of the host nation no later than 28 days before bid closing. The results of the bidder’s conference are provided in writing to all bidders either at the conference or immediately

thereafter. If results are not available at the conference, they will be provided as quickly as possible. If clarifications or changes to the "cahier des charges" are made after the bidder's conference, at least 28 days must be allowed before the final bid closing date.

[Ref. 11:p. 12]

## **7. Clarifications**

Bidders may seek clarification as soon as possible, whether or not there is a bidders' conference. Requests for clarification must be submitted directly to the Host Nation and must be received by the procurement agency no later than 28 days before the bid closes. It is up to the Host Nation to decide whether to act on a request for clarification if a contractor requests clarifications subsequent to the 28-day window period. There can be no disputes in either case regardless of the Host Nation's decision to act on such a request [Ref. 11:p. 13]. When a bidder requests clarification, the Host Nation must send the clarification to all eligible bidders by the most expeditious means possible.

Clarification or bid changes, if required, must be issued to the bidders not later than 28 days before the bid closes. The Host Nation must extend the bid closing date, if necessary, to provide for this 28-day period. For seeking clarifications about those clarifications or changes, this new date is considered the new bid closing date; queries must be submitted no later than 14 days prior to the new closing date. Should a procurement agency receive a request for clarification later than 28 days before the original bid closing date, or less than 14 days before a new bid closing date, the Host



Nation shall decide whether or not to issue clarification and extend the bid closing date.

[Ref. 11: p. 13]

## **8. Review of Bid Specifications**

Any delegation may, without invoking a formal dispute, request the International Staff or MNC to examine the “cahier des charges” specifications if the delegation feels that the principles of discrimination have been violated. The principles of discrimination are:

- Eligible firms of all countries are given the same opportunity and that bids of all eligible competitors are treated similarly;
- Host Nations must avoid producing specifications biased toward a specific equipment;
- Host Nation is free to issue ICB documents either in its own language or in one of the official NATO languages (English or French). Bidder's responses must be in either the official language of the Host Nation or in one of the official NATO languages;
- Host Nations must provide for timely availability of names of potential bidders on common funded projects. [Ref. 11:p. 4]

Requests must be made no later than 14 days before the bid closing date, and the Infrastructure Committee must be advised by the International staff or MNC that a technical examination inspection is being performed. The results of the examination must be forwarded to the Infrastructure Committee within two months of completion.

Until the Infrastructure Committee has made a determination, the bid is suspended and all firms are notified by the Host Nation.

The closing day for bid submission will be deferred by the Host Nation for at least the time it takes the committee to consider the examination results. If there are any modifications to the specifications of the bid, a minimum extension of 28 days from the change notification will be allowed before the bid closes.[Ref. 11:p. 15]

## **9. Evaluation of Bids**

Host Nations are encouraged to develop and follow formalized procedures for evaluating bids in order to ensure complete objectivity and non-discrimination. Host Nations are encouraged to discuss each bid with the cognizant bidder to clarify what is being offered, and to resolve any potential areas of non-compliance. This process should generate the maximum number of technically compliant bids and base source selection on the straightforward question of price. However, no bid alternatives (including technical, financial and schedule changes) are permissible [Ref. 11:p. 15]. The following additional procedures must be met:

- Bids must be compared on a tax exclusive basis;
- All bids must be certified as tax exclusive;
- Where Host Nations do not exempt infrastructure procurements from duties and taxes, contractors will add the assessments to their bids.

This last requirement should be spelled out in the “cahier des charges.” The contract will be awarded based on the principal of the bid. [Ref. 11:p. 16]

## **10. Contract Award**

The Host Nation normally awards the contract to the lowest compliant bidder. If the award is to other than the lowest bidder, the Infrastructure Committee is the final approving authority [Ref. 11:p. 16]. The Host Nation must then notify the contractor in writing, as early as possible, clearly stating the reasons for dismissing the bid. The Host Nation must also notify the contractor's diplomatic representative.

Protests can be lodged for 21 days after the diplomatic representative receives notification that the contractor's bid was not accepted. After the protest and any other disputes have been resolved by the Host Nation, the contract will be awarded. All other unsuccessful bidders will be notified at the earliest possible date.

For complicated projects, (or if the Committee directs), the Host Nation will arrange for bids to be submitted in separate envelopes. One envelope will contain the contractual and technical information; the other will contain the price quote. In this case, a bid must be verified for technical compliance before opening the price quote. If all bids are compliant, the host nation will normally select the lowest bid, which will be announced immediately to all bidders. The contract cannot be let before a 21-day period subsequent to the notification, however. [Ref. 11:p. 17]

## **11. Call for Bids**

As soon as possible after awarding the contract, but not later than one month after the award, the results of all calls are forwarded to the International Staff to communicate to the delegations. This communication will include the winning contractor's name, nationality, and amount submitted by the two next lowest bidders. The announcement also includes the signing date and a statement of whether the contract covers the entire work package or a percentage of the work, where the percentage is specified. [Ref. 11: p. 18]

## **H. NSIP INTERNATIONAL COMPETITIVE BIDDING (TWO STEP)**

The Two Step Procedure is a supplementary bidding stage that can be used before, and in addition to, the basic procedures listed in the one step. The objective is to allow the Host Nation more flexibility with the bidders. Simply stated, it provides the bidders a better working knowledge of NATO requirements, and allows the Host Nation to become more familiar with the bidder's industrial capabilities. Secondly, it decreases the risk of disputes. [Ref. 11:Annex II, p. 1]

The Host Nation issues the bid notification and obtains a list of eligible firms in accordance with Step One procedures as described previously. However, under Two Step, a Request for Bidder Views (RFBV) is issued to determine the contractor's assessment of the system approach to a problem. However, the RFBV does not include a technical bid proposal. The RFBV will contain the following:

- The best description of the requirement;
- The requirements detailed in One Step procedures and a statement that no pricing information nor the bidder's detailed technical proposal should be submitted;
- A statement that potential bidders will be free to respond in whatever manner practical within the scope of the contract, but excluding final technical proposals;
- Prospective contractual terms and conditions pertaining to the project;
- A closing date for submitting the proposals; but this closing date must be at least 42 days after issuing the RFBV;
- Notification that the Two Step procedure is being utilized; eligible firms will be informed that the Host Nation will discuss their Step One procedure with them. Eligible firms will be permitted to submit a bid under the Two Step procedure even if a firm did not participate in Step One. [Ref. 11:Annex II, p. 2]

Proposals submitted in response to the RFBV are reviewed by the host nation; each firm clarifies any difficulties in implementing the project. During these discussions, it is important that each firm understands the importance of technical data or proprietary rights; no company should be given a competitive advantage over another. [Ref. 11: Annex II, p. 3]

After completing the discussions, the host nation can amend or modify certain requirements contained in the RFBV, based on the knowledge obtained through the industry exchanges. This information is available to all eligible firms for which the host nation prepares the Invitation for Bids. At this point, all procedures defined in One Step with regard to eligible firms and responses to IFB's will be followed. Copies will be sent to all eligible firms, even if the firm did not respond to the RFBV. [Ref. 11, Annex II, p. 3]

Two Step procedures are applicable to highly technical, large scale projects. (Large scale projects are defined at the discretion of the Host Nation). The Host Nation must determine the earliest feasible stage in which they can use this procedure to supplement Step One procedures, and must inform the Infrastructure Committee that they intend to use this procedure and to obtain guidance on how to use the Two Step. [Ref. 11: Annex II, p. 4]

#### **I. NSIP INTERNATIONAL COMPETITIVE BIDDING (THREE STEP)**

Three Step International Competitive Bid Procedures are used for "complicated" NATO Security Investment Projects. The three step bidding procedure allows a step-by-step approach to implementing complicated projects, quickly identifying potential risks, and ensuring that the host nation, user nations, and contractors fully understand the requirements, methodology, and means to execute the contract. [Ref. 11: Annex III, p. 4]

Examples of complicated NSIP projects that fall under the three-step procedure include:

- Projects requiring research and development(R&D), where this R&D has not already been acquired;
- Projects where risk areas cannot be clarified via the two-step procedure;
- Projects for which one technological approach restricts competition. [Ref.

11:Annex III, p. 4]

Under this procedure, the Host Nation refrains from becoming involved in technological solutions. It should allow industry to formulate and refine the systematic approach to obtaining a solution. The Host Nation's task is to judge industry performance to meet stated requirements. [Ref. 11:Annex III, p. 4]

The steps in this procedure are summarized as:

<i>Step 0: Concept Formulation</i>	In-house discussions to define requirements
<i>Step 1: Feasibility</i>	Prepare an RFBV to circulate to industry and evaluate their responses
<i>Step 2: Project Definition</i>	Initiate project definition contracts, and include their results in the TCBE
<i>Step 3 Development/Production</i>	Prepare and distribute IFB rules. [Ref. 11:Annex III, p. 5]

## **1. Concept Formulation**

During this phase, the Major NATO Commanders (MNCs) cooperate with the host nation, user nation, and the International staff to establish the basic operational goals. The Host Nation then develops the Type "A" cost estimate (TACE). NSIP funds can be authorized by the Committee to hire a contractor or consultants to help develop the TACE. In addition to the TACE, this stage produces the Mission Need Document (MND), and the Outline NATO Staff Target (ONST). The MND is a statement, based on a mission analysis, identifying a general quantitative or qualitative operational deficiency that cannot be solved satisfactorily with existing or planned forces and/or equipment.

[Ref. 11:Annex III, p. 5]

Actions resulting from this stage include:

- NMAs prepare and validate the MND , outline the ONST, and recommend planning funds for programming;
- The TACE is developed by the Host Nation establishing the functional baseline that establishes performance specifications;
- NMAs include the project in a Capability Package and submit the package to the Senior Resources Board (SRB);
- The Infrastructure Committee authorizes, if required, advanced funding and agrees on a procurement method dispute resolution procedure, and the evaluation procedure. [Ref. 11:Annex III, p. 6]



## **2. Feasibility Stage**

During this stage, the NMAs refine the ONST to a NATO Staff Target (NST).

The NST lists in greater detail operational characteristics and technical specifications which have been shown to be broadly feasible. The NST may contain broad cost parameters which are used in the request for proposals from industry. [Ref. 11:Annex III, p. 7]

Actions under this stage include:

- NMA prepares and validates the NST;
- Host Nation issues a Type "B" Cost Estimate (TBCE) for the follow on project and the intent to call for bids indicating that the three step procedure will be applied;
- Host Nation issues the RFBV with the performance specifications. The RFBV describes selection criteria and rating factors for evaluating final technical proposals and the bidder's selection. [Ref. 11:Annex III, p. 8]

The RFBV will include:

- The project scope;
- A statement that the three step method will be used;
- Guidance on basic information to be submitted in the bidder's response;
- A statement as to whether bidders should include proprietary information for non disclosure, or whether the procuring agency will consider that any

provided information is available to NATO to improve upon the performance specifications;

- Standard terms of the contract;
- Statement about the project's cost sharing arrangement of the project;
- Dispute procedures;
- A closing date for submitting the RFBV response. [Ref. 11, Annex III, p. 9]

### **3. Project Definition Stage**

This stage explores all aspects of the project in order to identify and eliminate the high risk areas involving high technology and new hardware and software development. Additionally, ambiguities in the requirement are clarified, the areas of development are explored, prototype production is initiated (if required), a test plan is developed, and a system design is produced which the contractor can implement. [Ref. 11:Annex III, p. 11]

In this stage, the National Military Authorities NMA's continue to refine the requirements producing a validated NSR. The host nation prepares the Project Definition (PD) work statement and lets contracts to the selected contractors. In depth discussions are held between the host nation and the contractors. The PD products include detailed specifications prepared by the contractor and also a detailed description of the test program and the contractor effort.

The Host Nation then assesses the PD stage's outcome and recommends transitioning to the development and production stage. If the decision to proceed is

affirmed, then the host nation updates the TBCE for the entire project and begins to prepare the IFB.

Actions to be addressed during this stage include:

- NMAs prepare and revalidate the NSR;
- The Infrastructure Committee authorizes funds for the PD study and determines the amount to be paid to each contractor, accounting for any cost sharing arrangements;
- The Host Nation awards the PD study contracts to the selected firms;
- Representatives of the major users and the International staff are closely involved;
- ICB disputes are not admissible at the conclusion of the PD study;
- The Infrastructure Committee authorizes project implementation with the required funds for international contract bidding. [Ref. 11:Annex III, p. 13]

#### **4. Development/Production Stage**

The host nation issues the IFB based on the TBCE, including legal, contractual, and financial clauses. A statement is delivered committing the contractor to his or her own design. [Ref. 11:Annex III, p. 14]

Table 5 on the following page reflects the four Steps described above:

**Table 5****Procedures for International Competitive Bidding**

	<b>Step 0</b> Concept Formulation	<b>Step 1</b> Feasibility Stage	<b>Step 2</b> Project Definition Stage	<b>Step 3</b> Development/ Production Stage
NMA's	Prepare and validate MND and ONST	Prepare and validate NST	Prepare and validate NSR	Update/revalidate NSR
Host Nations	Provide advice and estimates  Prepare TACE  Prepare RFBV  Let study contracts if reqd  Propose procedure	Solicit Firms Issue RFBV  Assess response to RFBV  Select 2/3 firms  Prepare initial TBCE on the basis of performance specs  Prepare Cost  Estimate for PD	Prepare PD Work Statement Let PD Contract  Assess PD outcome Recommend Solutions Update TBCE on the basis of performance spec/baseline requirements  Prepare Cahier des Charges	Issue Cahier des Charges on final TBCE.  Each contractor is bound by respective technical specs  Select Contractor  Negotiate Contract  Award Contract
Senior Resource Board	Screen and endorse CP			
Infrastructure  Committee	Release planning funds  Agree on Procedure	Note initial TBCE  Authorize funds for PD	Screen TBCE  Authorize project funds	Participation only in instance of choice is other than lowest bidder

Source: AC/4-D/2261

**J. U. S. MAJOR DEFENSE ACQUISITION PROGRAM (MDAP)**

All acquisition programs are based on identified, documented, and validated mission needs. Mission needs reflect assessments of current and projected capabilities. Mission needs may establish a new operational capability, improve an existing capability, or exploit an opportunity to reduce costs or enhance performance. The U. S. Department

of Defense Components first tries to satisfy mission needs through non-material solutions, such as changes in doctrine or tactics. If a non-material solution is deemed infeasible, the DOD component documents its considerations and determines if a material solution could receive an Acquisition Category (ACAT) I or ACAT IA Program. If the potential solution could result in a new ACAT I, the Joint Requirements Oversight Council (JROC) reviews the documented mission need, determines its validity, and establishes joint potential. [Ref. 12]

If the potential solution could result in a new ACAT IA, the appropriate OSD Principal Staff Assistant (PSA) or the JROC reviews the documented need, determines its validity, establishes joint potential, and confirms that the requirements have been met. To determine JROC special interests, all potential ACAT IA requirements are forwarded to the JROC Secretary in accordance with the regulations. [Ref. 12]

ACAT I programs are thus designated by the Milestone Decision Authority (MDA). An MDAP is an acquisition program that is not a classified highly sensitive (as determined by the Secretary of Defense) and that is: (a) designated by the Under Secretary of Defense (Acquisition and Technology) (USD(A&T)) as an MDAP, or (b) estimated by the USD(A&T) to require an eventual total expenditure for research, development, test and evaluation (RDT&E) exceeding \$355 million in fiscal year (FY) 1996 constant dollars or, procurement exceeding \$2.135 billion in FY 1996 constant dollars. [Ref. 12]

ACAT IA programs are major acquisition information systems (MAIS), or programs designated as ACAT IA by the Assistant Secretary of Defense for Command,

Control, Communications, and Intelligence (ASD(C3I)). A MAIS is an acquisition program that is:

- Designated by the ASD(C3I) as MAIS, or,
- Estimated to require program costs in any single year exceeding \$30 million in FY 1996 constant dollars, total program costs exceeding \$120 million in FY 1996 constant dollars, or total life-cycle costs in excess of \$360 million in FY 1996 constant dollars.

MAISs do not include highly sensitive classified programs (as determined by the Secretary of Defense). [Ref. 12]

In comparing NATO's Three Step procedure and the U.S. MDAP phases, this thesis assumes the reader is familiar with the MDAP program and understands the similarities and/or dissimilarities of the phases. The four phases of major procurement under the U. S. acquisition system are:

- Concept Exploration
- Program Definition and Risk Reduction (PDRR)
- Engineering and Manufacturing Development
- Production, Fielding/Deployment, and Operational Support. [Ref. 12]

### **1. Concept Exploration**

This phase typically consists of competitive, parallel, short-term concept studies. The focus is to define and evaluate the feasibility of alternative concepts, and to provide a

basis for assessing the relative merits of these concepts (i.e., advantages and disadvantages, degree of risk) at the point of the next milestone decision. This analysis facilitates comparing alternative concepts. The most promising system concepts are defined in terms of initial, broad objectives for cost, schedule, performance, software requirements, opportunities for tradeoffs, overall acquisition strategy, and test and evaluation strategy. [Ref. 12]

## **2. Program Definition and Risk Reduction**

During this phase, the program is defined, and one or more concepts, design approach, and/or parallel technologies are pursued as warranted. Advantages and disadvantages of alternative concepts are further assessed. Prototyping, demonstrations, and early operational assessments are considered and included as necessary to reduce risk. Technology, manufacturing, and support risks should be well in hand before the next decision point. Cost drivers, life-cycle cost estimates, cost-performance trades, interoperability, and acquisition strategy alternatives are considered, including evolutionary and incremental software development. [Ref. 12]

## **3. Engineering and Manufacturing Development**

This phase translates the most promising design approach into a stable, interoperable, reproducible, supportable, and cost-effective design; validates the manufacturing or production process; and, demonstrates system capabilities through testing. Low Rate Initial Production (LRIP) begins during the Engineering and

Manufacturing Development phase. Test results and design fixes or upgrades are incorporated. [Ref. 12]

#### **4. Production, Fielding & Deployment, and Operational Support**

This phase produces an operational capability that satisfies mission needs.

Deficiencies encountered during Developmental Test and Evaluation (DT&E), and Initial Operational Test and Evaluation (IOT&E), are resolved and fixes verified in Follow-on Operational Test and Evaluation (FOT&E). The production requirement in this phase does not apply to ACAT IA acquisition programs or software-intensive systems with no developmental hardware components. During fielding and deployment and throughout operational support, modifications to the fielded/deployed system continue. [Ref. 12]

#### **5. Operational Support**

This activity executes a support program that meets the threshold values of all support performance requirements and sustains them in the longest life-cycle and most cost-effective manner. A follow-on operational testing program assesses performance, quality, compatibility and interoperability, and identifies deficiencies as appropriate. This activity also executes operational support plans, including the transition from contractor to organic support, if appropriate. [Ref. 12]



## **K. THREE STEP/MDAP COMPARISON**

Although the procurement phases for NSIP and the U.S. acquisition process (for major systems) closely resemble one another, the U.S., under Concept Exploration, has already established the mission need and seeks to determine the feasibility of alternatives while identifying the most promising solutions. [Ref. 12]

The PDRR phase in the U.S. system is very similar to the Feasibility stage in the NATO Three Step system; they both address cost estimation and further define requirements. The Feasibility stage addresses risk by initiating the RFBVs covering everything from disputes to cost sharing arrangements.

The NATO Project Definition Stage mirrors the U.S. Engineering and Manufacturing Development phase. Test plans are addressed and validated, and both processes produce a prototype design.

The final phase in the U.S. system is to achieve the operational capability to satisfy the mission needs. The final Three Step procedure is Development/Production. This stage commits the contractor to the required design.

## **L. SUMMARY**

Chapter III reviewed the NFR and the procurement procedures for three NATO procuring agencies or Headquarters. Relative comparisons were made with regard to specific processes between the NSIP and the U. S. MDAP programs. A further analysis will be completed in Chapter V.

Chapter IV specifically addresses the procurement problems defined by the most recent Deputy Director of Procurement at ACE, the current Director of Procurement at ACE, and the NAMSA Director of Procurement.

## **IV. PRINCIPAL PROBLEM AREAS**

### **A. INTRODUCTION**

NATO's capability of maintaining world peace is based on the alliance command's ability to support its infrastructure and force deployments. Rationalization and standardization have made NATO forces more capable and reliable as a deterring entity. However, as indicated in chapter II, the world force's strategies have changed to reflect a new global political and economic environment. Despite the initiatives and reforms to enhance a more global procurement environment, NATO's organizational procurement commands are experiencing problems based on lack of structure and insufficient training [Ref 16]. The problem areas were defined by the former Deputy of Procurement at ACE, LtCol John Cornett, USAF, who is currently working in the Pentagon, Washington, DC with the USAF Staff Inspector General (IG) Branch. The Directors of Procurement at both ACE and NAMS indicated that their problems focus on manning and contingency related issues such as customs and unauthorized transactions.

This chapter will address principal business problems from an international perspective, and then focus on particular NATO procurement problems. Some of these situations deal specifically with contingency contracting. Contingency contracting, although not directly addressed in this thesis, lends to some of the structural and training

problems at NATO. Contingency contracting procedures are located in Appendix D of the ACE 60-70 Directive.

## **B. INTERNATIONAL PROCUREMENT ISSUES**

Perhaps the largest obstacle in international procurement is crossing international cultural and communication boundaries. The nature, customs, and ethics of individual nations and their respective businesses can vary greatly [Ref. 15:p. 269]. Additionally, differences in language, dialects, or terminology can result in miscommunication and create additional problems.

Currency discrepancies, coupled with communication differences, can hinder successful business transactions. It is also customary in many foreign nations for the contractor to receive payments prior to commencing the work [Ref. 15:p. 270]. Yet, NATO's preferred method of payment is after the output is received and inspected. Other international discrepancies warranting consideration include:

- Lead times
- Quality
- Social and labor issues. [Ref. 15:p. 272]

Lastly, considering the geographical scope of NATO contingency contracting, the need for translators and the distances involved in making site visits can significantly increase

the complexity of procurement. These issues are significant because they establish the business environments in which NATO allies procure goods or services.

NATO's overarching procurement problems stem from a lack of procurement training, and limited control over procurement by the financial community [Ref. 16]. Although these problems reflect specific conditions facing ACE, it is likely that other NATO agencies and commands have, or are experiencing similar problems.

### **C. NATO PROCUREMENT STRUCTURE**

NATO is structured so that procurement functions are directly controlled by the Financial Controllers. At ACE, changing any procurement policy requires concurrence from the Financial Controller and the Military Budget Committee [Ref. 9].

Given the way the directives are written, it is hard for procurement personnel to be proactive. The latitude for making sound business decisions is not granted to even the Directors of Procurement. For example, under the source selection phase, as dictated by the ACE Directive 60-70, the Financial Controller must be the approving authority for using other than normal sources, including commercial or governmental sources from non-funding NATO nations.

The whole procurement process is reactive, because requirements are frequently discovered only when requests are received without the necessary planning [Ref. 16]. This is not to say that there are not planned requirements because there are everyday

functions that must occur. However, procurement is at the expense of the financial controllers. In contrast, the United States trains its procurement personnel in the concept of risk management. Risk management processes ensure that requirements are anticipated rather than allowing the actual requirements to dictate the procurement process.

An example of structural problems and the financial controller exercising its procurement authority occurred during contingency operations in Macedonia and Albania. Procurement for these operations was directed remotely by Allied Forces, Southern Europe (AFSOUTH). Depending on the dollar amount, dual signatures are sometimes required from both the financial controllers and suppliers. Payments to the suppliers were slow in these countries because the financial controllers wanted to use electronic funds transfer for payments. Cash deposits and payments were not allowed because controllers feared losing oversight on cash payments. The significance of this problem is that the procurement personnel were unable to pay the suppliers because the banking systems and the suppliers were not configured to using electronic funds transfer for business transactions. [Ref. 16]

#### **D. TRAINING**

NATO includes 19 member nations; each nation is responsible for training their personnel, both military and civilian. NATO commands provide little or no training [Ref

16]. For example, ACE does not have planned/structured training for its purchasing personnel. ACE hires technicians such as electrical, computer, or communication engineers and employs them in contracting positions; few of them have been trained or have any experience in acquisition [Ref. 16]. The extent of the training is basically limited to a yearly consortium to exchange views and experiences. As of this writing, a Procurement and Contracting course is being developed by Mr. Roland Penninckx, Director of Contracts at ACE. However, recent contingency operations have reduced the time available to complete the course's development [Ref. 9]. ACE's procurement training is essentially on-the-job training [Ref. 16].

At NAMSA, the philosophy is to hire people with whatever skills are needed for procurement employment [Ref. 8]. Generally, a course in negotiations, cost or pricing, or law is presented annually by the NAMSA Procurement Director. It is supplemented by one to two hours per month of contracting training sessions. [Ref. 8]

The United States is by far the best nation at training its acquisition personnel. The Germans and French have good systems but their personnel are not as extensively trained as U. S. procurement officer or civilian. [Ref. 16]

## **E. SUMMARY**

Chapter IV addresses the principal problem areas, identified through correspondence with the recent Deputy Director of Procurement at ACE, and the current Directors of Procurement and Contracting at both ACE and NAMSA. Some of the

problem areas stem specifically from contingency contracting issues that are not directly addressed in this thesis.

Chapter V will analyze NATO's procurement guidance through the directives; NATO's procurement structure, training, and risk management as a result of the findings from the data in Chapters III and IV. The analysis will focus on both short and long term solutions to the problem areas.



## V. ANALYSIS

### A. INTRODUCTION

This chapter analyzes the procurement process described in the literature review and the principal problem areas outlined in Chapter IV. The views expressed in this chapter are the personal views of the researcher.

The international economic and political world today has undergone many changes concerning procurement, resulting in more oversight and less funding. However, NATO's procurement processes as they apply to this thesis have changed little over the past 20 years. NATO's procurement processes today are reminiscent of the United States' procurement environment in the early to late 1980s when spending for the Department of Defense was excessive by today's standards.

In the 1980's, U. S. defense funding was abundant and contracting efforts used primarily Fixed-Priced type contracts. [Ref. 33] The similarities in NATO procuring commands and the U.S. (of the 1980s) was echoed in personal correspondence between the researcher and Mr. Adam Geuss, Director of Procurement at NAMSA. He indicated that the Program Managers at NAMSA were less concerned about the procurement processes and management, but more concerned with securing sufficient funding for their programs. The U.S. survived the defense buildup era, and has evolved to smarter business practices of obtaining best value and streamlining procurement through

acquisition reform. Increased cooperation between the U.S. and the allies, and more specifically the NATO procurement organizations, should enhance NATO procurement systems, encouraging smarter business decisions by training and reforming their procurement processes.

NATO buying agencies should begin to capitalize on this new global environment by revisiting their procurement practices. The regulations (or directives) need to be centralized either by expanding the NATO Financial Regulations (NFR) to incorporate their processes or by an interim adoption of the most comprehensive regulation (like NAMSAs's 251-R-1) as the NFR.

Training and a training plan should be developed despite the contingency setbacks. This Chapter will discuss some of the training options available to NATO procuring commands, drawing on U. S. programs.

## **B. PROCUREMENT REGULATIONS**

The domain of NATO procurement is complex because there has been very little standardization across procurement directives. The directives are different depending on the funding budget. They also differ from one NATO Command to another [Ref. 9]. NATO's procurement foundation is, in theory, laid down by the NATO Financial Regulations (NFR). However, the NFR only devotes five generalized pages to procurement. On the other hand, the directives which govern agencies like NAMSAs are

comprehensive and the governing efficiencies can be shared across all NATO contracting entities.

The content of the agency directives referred to in this thesis, compared to the NFR, are effectively equivalent to the U.S. FAR. (The AC/4-D/2261 is to be similar to the U.S. DOD 5000.2-R regulation as a process, although not as comprehensive). As shown in Table 3, there is little comparison between the NFR and the U. S. FAR.

NATO should consider standardizing their procurement practices by adopting the ACE Directive 60-70 and NAMSAs 251 Directive as its NFR, and incorporating the directives of other NATO procuring entities. The emphasis should be placed on standardizing the procuring elements and encouraging NATO to derive a comprehensive regulation consolidating the basic procurement tenets.

The biggest failure of the regulations and/or directives is not providing market survey procedures. In both the ACE Directive 60-70 and the NAMSAs 251-R-1, very little is mentioned with regard to market survey. The U.S. FAR, in contrast, devotes an entire section (Part 10) to market research. The inadequacy of the market research embeds the theory that NATO agencies continue reliance on the old databases/files and is not exploiting the growing international market.

Inadequate NFR organization and direction requires each agency to emphasize their internal directives and standard operating procedures. Therefore, the differences in the directives are more readily apparent. The research does indicate, however, that each organization, through their directives, is committed to satisfying the intent of NFR Article 20. Article 20 states that, "...goods and services will normally be procured from the most

economical government or commercial sources available within the funding nations," and that, "...full and open competition is the standard method of procurement" [Ref. 13:p. 31]. However, more definitive guidance should be provided by the NFR, rather than the individual directives used by the agencies and commands. The reason the NFR should be more definitive is simply because it is the advertised document for which all NATO procurement directives are based on. The contrary aspect is that the NFR may intentionally lack the definitive guidance to allow the commands broad latitude to perform contracting functions.

The lack of standardized guidance also leads to the structural differences at the NATO procuring commands. For example, a Board of Directors governs procurement at NAMSA, while a Head of Contracts, a CAC, and a Military Budget Committee are located at SHAPE. Although many of the functions of the various NATO agencies are peculiar, procurement centralization can be developed by implementing a comprehensive regulation to govern all the procurement practices.

### **C. PROCUREMENT STRUCTURE**

NATO's procurement environment indicates that the NATO procurement commands will continue to remain reactive in satisfying customer requirements. It appears that NATO's procurement system will never be a "strategic entity" until it becomes more centralized and gains independence from the Financial Controllers. NATO could then focus more specifically on procurement issues and initiatives in the

global procurement environment. This evolution, arguably a bold step for NATO, would enhance the efficiency of their acquisition processes.

In the United States, the centralized contracting administration for the Department of Defense is performed by the Defense Contract Management Command (DCMC). The DCMC is integral to the entire end-to-end acquisition process from pre-award through contract closeout, managing more than 352,00 prime contracts worth more than \$900 billion. Additionally, they monitor more than 23,000 contractors [Ref 17]. The DCMC's District International Branch (DCMDI) administers all types of contracts for the US Department of Defense, other Federal agencies and foreign governments. Offices are located at 57 sites in 23 countries, with another 25 countries supported on an "itinerant" basis with Fuels and Contingency Contract Administration Services (CAS). The DCMDI Team deals specifically with international contract management issues, including recognizing and understanding local business practices, foreign contracting procedures, foreign government requirements for customs and country clearances, and currency fluctuations.

DCMDI overseas field activities perform CAS functions that are necessary at outside continental U. S. (OCONUS) locations on all prime, support, or Quality Assurance (QA) Only contracts or delegations [Ref.18]. They will also determine if it is possible to delegate performance of a CAS function to a host nation with which we have a reciprocal procurement agreement. DCMDI technical personnel will assess a contract, product, or contractor using the DCMDI Performance Based Technical Surveillance Assessment Guide. (The guide is a field operations tool for identifying risk areas and

documenting surveillance requirements based on risk.) DCMDI determines if the required surveillance can be delegated to the host nation's CAS organization in accordance with applicable procurement agreements or a Memorandum of Understanding (MOU). The delegation process can be found in the *One Book* Section on International Agreements/International memoranda of Understanding, Host Nation Contracting Administration Services [Ref. 18].

NATO has involved DCMDI in the NATO E-3A program located in Gilkerchen, Germany. On a non-reimbursable basis, the E-3A agency receives Quality Assurance, Financial Audit, and Contract Administration services [Ref 18]. Additionally, there have been many coordinated efforts involving contingencies in Bosnia, Albania, and Macedonia.

The U.S. and all other alliance nations budget the equivalent of two percent of their defense dollars to NATO. (This should not be confused with direct support of contingency operations.) The procurement efforts made by the funded NATO agencies and commands should be held to the same standards as the member nations demand from their own procurement policies. If the national defense budgets are shrinking, then all budgets supporting the alliance require qualitative and quantitative contracting oversight. The goal is to ensure that the money invested in NATO is being planned and managed utilizing smart business decisions.

NATO procuring entities can benefit in the long run by studying a command such as the DCMC. Using this analysis, NATO could develop the foundation necessary to form its own contracting command. The formation of this type of command would

require an extensive effort because NATO contracting functions are spread between two continents. (The Supreme Allied Command, Atlantic (SACLANT), the major NATO command in the U.S. could partner with a local DCMC East Office for contracting assistance.)

Another option to enhance procurement procedures is to partner with DCMC adapting their methodology to NATO's procurement processes. Partnering would allow NATO procurement personnel to learn from an outside agency that has significant international business experiences. Secondly, adopting a DCMC philosophy will enhance NATO personnel training, encouraging a shared understanding between NATO and the other nations with which DCMDI partners in the international procurement environment.

#### **D. TRAINING**

More emphasis needs to be placed on developing a training plan or perhaps outsourcing training to ensure that all NATO personnel are equipped to make sound contracting decisions. Information provided by the Procurement Directors at ACE and NAMSA indicated that NATO procurement commands have no training plans because they have been relying on the same post "Cold War" processes and experiences to satisfy traditional requirements. However, recent contingencies have changed the perspective of NATO procuring agencies/commands; they have been forced to operate outside of their normal practices, getting more involved in the global environment.

In the short run, NATO personnel can be trained by outsourcing their training.

U. S. acquisition and contracting professionals could train NATO personnel on site at the various NATO commands. This training would be best served by consolidating contracting efforts across all the buying agencies and commands. The U. S. Defense Acquisition University (DAU) and the Naval Postgraduate School (NPS) can provide onsite and/or Internet based training. Some recommended courses available from these sources include:

#### **Defense Acquisition University**

- Fundamentals of Systems Acquisition Management
- Intermediate Systems Acquisition
- Senior Acquisition course
- Executive Management Course
- Defense Acquisition Executive Overview Workshop
- Systems Acquisition Management Course for General/Flag Officers
- Executive Refresher Course

#### **The Naval Postgraduate School**

- Requirements Generation
- Acquisition Phases and Milestones
- Acquisition Strategy
- Integrated Product Process and Development
- Program Management
- Risk Management



- Work Breakdown Structure and Earned Value Management
- Reviews, Assessments and Reports
- Program Affordability and Cost Estimating
- Fiscal Environment and Execution
- Science and Technology. [Ref. 38]

Basic acquisition/contract tenets are found in many of the DAU courses and are subject to national needs. The NPS courses taught also encompass the basic tenets but can be tailored to a specific nation's needs assessment.

International training conducted by the Naval Postgraduate School operates under the Foreign Security Assistance, International Military Education (IMET) Program. This Program, under the direction of Dr. David V. Lamm, concluded a very successful course delivery (Phase III) in the Phillipines in September 1999. This Program is designed to train contracting personnel in the acquisition of equipment while simultaneously integrating the equipment into their inventory. The objectives of IMET are to:

- Create skills needed for effective operation and maintenance of equipment acquired from the US;
- Assist the foreign country in developing expertise and systems needed to effectively manage its defense establishment;
- Foster development by the foreign country of its own indigenous training capability;

- Promote military to military rapport and understanding leading to increased rationalization, standardization, and interoperability. [Ref. 19: p. 471]

The IMET Program is accomplished in three phases. The phases are summarized as:

<i>Phase 1: Needs Assessment</i>	Meet with Military/Security Assist Officers to assess current status of need;
<i>Phase 2: Training Development</i>	Based on assessment of Phase I;
<i>Phase 3: Course Delivery</i>	Actual training based on Phases I and II assessment.

[Ref. 20]

## E. RISK MANAGEMENT

The contracting community has labored in an atmosphere that has preferred risk aversion to risk management [Ref. 22]. Risk aversion appears to be built into NATO's exclusive reliance on fixed price contracts. (The preferred contract type for the processes listed in Chapter III were fixed price contracts.) Although the NAMSA 251 Directive discusses cost type contracts, they use cost type contracts for consulting services [Ref. 8]. To some extent, this limited application is necessary considering the limited training provided NATO personnel performing procurement functions.

Table 6 compares contract types between the U.S. and NATO. As indicated in the table, there is a clear reliance on fixed price contracts. Even the NATO Security Investment Program (NSIP) uses fixed price contracts to purchase satellites,

communications, and ADP equipment. Unfortunately, cost contracts might place an excessive contract management and oversight burden on the NATO commands.

**Table 6**  
**U.S. /NATO Contract Type Comparison**

<b>U.S. Contract Types</b>	<b>NATO Contract Types</b>
Firm Fixed Price (FFP)*	Fixed Price
Indefinite Delivery (ID)	Fixed Price with Variation
Fixed Price Economic Price Adjustment (FPEPA)	
Fixed Price Award Fee (FPAF)	Indefinite Delivery, Indefinite Quantity (ID,IQ)
FP Prospective Redeterminable (FPPRD)*	Cost for consulting services - NAMSA
Fixed Price Incentive (FPI)*	
Cost Plus Fixed Fee (CPFF)*	
Cost Plus Incentive Fee (CPIF)	
Cost Plus Award Fee (CPAF)	
Cost and Cost Sharing	
Time and Materials (T&M)	
*Note: These contract types have variants.	

Developed by researcher

Arguably, NATO exercises risk avoidance by the extensive use of Fixed Price contracts. Based on their volume of work and concession of allowing the financial controllers to run procurement, this is worthwhile and necessary. Based on the training level and inconsistency in regulations, this is the only way to mitigate some of the risks in NATO procurement.

## **F. SUMMARY**

Chapter V presented an analysis of the procurement regulations, procurement structure, training, and associated risk with contract types. Based on the research and projected involvement in global procurement, NATO must address issues of consolidation and the development of a sound training plan to be able to handle the new market of global contractors and the dynamic environment of contingencies. NATO procurement has survived almost exclusively on the use of fixed price contracts and should develop methodology to determine if executing cost type contracts can be more prudent from a business standpoint. What cannot be underscored, however, is the need for a comprehensive training plan.

Chapter VI is the conclusions and recommendations. The recommendations represent ambitious NATO procurement realignments based on the new strategic command structure found in Appendix D.

## **VI. CONCLUSIONS AND RECOMMENDATIONS**

### **A. CONCLUSIONS**

There are significant changes occurring with regard to global procurement that inevitably will force NATO organizational procurement units to become more strategically oriented. Based on their current decentralized organization, they will need to either partner with agencies similar to DCMC or to develop a contracting command themselves. NATO's procurement system is a hybrid system because it exists to support the NATO's command with no national governing regulations.

The procurement decisions are balanced with Committees formed to represent and protect the interests of the 19 alliance nations. Their decision making processes require unanimous decision. Other than a unanimous decision results in a re-competition of requirements.

Dating back to the Bosnia crisis, NATO procuring entities have been involved in contingency operations supporting smaller, more mobile forces. It is through these contingency efforts that standardization and interoperability in conjunction with Joint Vision 2010 have been emphasized to support the multi-national forces. However, NATO's organizational units have yet to begin a change in their practices.

The existing regulations (or directives), although some are undergoing re-writes, need to be consolidated to form one procurement regulation. The NFR, as the data

suggests, is very limited and leaves a tremendous amount of latitude to the contracting entities. Between the two major commands (ACE and the Supreme Allied Command, Atlantic (SACLANT), located in Norfolk, Virginia), there are no common procurement directives with the exception of the NFR.

If trends continue, funding from the alliance nations to support NATO's commands will be decreasing at the same time global markets are increasing. International businesses are certain to focus on markets that increase their profit margins. NATO commands will have to develop market research abilities to support a changing industrial base as these international firms enter the market. NATO acquisition managers will need to adjust to these markets and operate outside the boundaries of their current procurement environment.

NATO procurement tends to rely on the same sources to support the same systems. Mostly because the systems are old and of U.S. origin. With the changing marketplace, more innovative, less costly ways to obtain material will be needed to support the command's goals.

The absence of fundamental training and procurement management through directives, will limit NATO to procure in a reactive mode.

## **B. RECOMMENDATIONS**

NATO has developed a new command structure and this reorganization can have major contracting implications for supporting the newly formed Regional Commands

located in Brunssum, the Netherlands (RC North) and Naples, Italy (RC South). These Regional Commands are perfect targets for developing actual NATO Contracting Commands.

NATO procurement entities should develop a new procurement regulation, and develop or outsource a training plan. It is recommended that once a comprehensive regulation is developed and a NATO wide training plan is in place, a strategic plan for supporting the Regional Commands and the subordinates can be developed. Once in place, it is recommended that procurement objectives need to be defined and a customer database established.

It is also recommended that Head of Contracting functions remain at the SHAPE Headquarters to act as liaison between the committees and the Regional Commands. It is important to coordinate with the SHAPE Logistics functions and to educate the national delegates and Committees on the status of newly formed contracting entities.

Considering possible locations of a new contingency, these regional Commands can act as central points of contracting expertise as their subordinate commands will have proactively gathered data necessary to establish a contracting site.

These recommendations seem a bit ambitious, yet they are consistent with NATO's procurement becoming a cognizant entity and being more in touch with the changing global procurement environment.

### **C. AREAS FOR FURTHER RESEARCH**

- What is the impact of developing a contracting command at a Regional Command?
- What savings can be realized by supporting increased Cost Contracts over Fixed price contracts?
- What is the impact of supporting Contingencies from a Regional Command?



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## **APPENDIX A. ACRONYMS**

**AP** Allied Publication

**AAP** Allied Administrative Publication

**AC** Alliance Committee

**ACCIS** Automated Command and Control Information System

**ACCS** Air Command and Control System

**ACE** Allied Command Europe

**ACLANT** Allied Command Atlantic

**ACROSS** ACE Resource Optimization Software System

**ACSP** Aircraft Cross-Servicing Program

**AD** ACE Directive/Assistant Director (IMS)

**ADAMS** Allied Deployment and Movement System

**ADP** Automated Data Processing

**ADW** Area Defense Weapons

**AFCENT** Allied Forces Central Europe

**AFNORTHWEST** Allied Forces Northwestern Europe

**AFSOUTH** Allied Forces Southern Europe

**AGARD** Advisory Group for Aerospace Research and Development

**AGS** Alliance Ground Surveillance

**AJP** Allied Joint Publication

**ALP** Allied Logistic Publication

**ALSS** Advanced Logistic Support Site

**AMCC** Allied Movement Coordination Center

**AQAP** Allied Quality Assurance Publication

**ARRC** ACE Rapid Reaction Corps  
**ASG** Assistant Secretary General (IS)  
**ASR** Alliance Standardization Requirements  
**BDR** Battle Damage Repair  
**BICES** Battlefield Information Collection and Exploitation System  
**BOD** Board of Directors  
**C-M** Council Memorandum  
**C3** Communication, Command and Control  
**CALS** Continuous Acquisition and Life Cycle Support  
**CIS** Communication and Information System  
**CIVSITREP** Civil Situation Report  
**CJPS** Combined Joint Planning Staff  
**CJTF** Combined Joint Task Force  
**CP** Capability Package  
**CPC** Civil Protection Committee  
**CSNI** Communications Systems Network Interoperability  
**DCMC** Deputy Chairman of the Military Committee  
**DDP** Detailed Deployment Plan  
**DFD** Data Fusion Demonstrator  
**DIMS** Director International Military Staff (IMS)  
**DNBI** Disease and Non-Battle Injury  
**DPAO** Defense Planning and Operations Division (IS)  
**DPC** Defense Planning Committee  
**DPQ** Defense Planning Questionnaire  
**DRC** Defense Review Committee

**DRG** Defense Research Group

**DS** Defense Support Division (IS)

**EAPC** Euro-Atlantic Partnership Council

**EDP** Electronic Data Processing

**EF 2000** Eurofighter 2000

**EMERCOM** Ministry of the Russian Federation for Civil Defense, Emergencies and Elimination of Consequences of National Disasters

**EOD** Explosive Ordnance Disposal

**EU** European Union

**FLS** Forward Logistic Site

**FORACS** NATO Naval Forces Sensors and Weapons Accuracy Check Sites

**GOP** General Operational Plan

**HNS** Host Nation Support

**IC** Infrastructure Committee

**ICR** In Country Resources

**IEPG** Independent European Program Group

**IFOR** Implementation Force (Joint Endeavor)

**ILS** Integrated Logistics Support

**IMS** International Military Staff

**IO** Interoperability Objective

**IPC** Industrial Planning Committee

**IPP** Individual Partnership Program

**IRF** Immediate Reaction Forces

**IS** International Staff

**JHNSP** Joint HNS Plan

**JIP** Joint Implementation Plan

**JIC** Joint Implementation Committee

**JMC** Joint Medical Committee

**JMCC** Joint Movement Coordination Center

**JPC** Joint Planning Committee

**LA&R** Logistics, Armaments and Resources Division (IMS)

**LCB** Logistics Coordination Board

**LCC** Logistics Coordination Center/Life Cycle Costing

**LOGFASS** Logistics Functional Area Sub-System

**LSA** Logistics Support Analysis

**LSM** Logistics Staff Meeting

**MAG** Movement and Transportation Advisory Group

**MARREP** Maritime Reporting System

**MAS** Military Agency for Standardization

**MBC** Military Budget Committee

**MBS** Mailbox System

**MC** Military Committee/Military Committee Decision/Document

**MCDA** Military and Civil Defense Assets (in Disaster Relief)

**MCRL** Master Cross Reference List

**MDAHG** Missile Defense Ad Hoc Group

**MDF** Main Defense Forces

**MF** Military Function

**MIDS-LVT** Multifunctional Information Distribution System - Low Volume Terminal

**MJLC** Multinational Joint Logistic Center



**MLRS** Multiple Launch Rocket System  
**MNC** Major NATO Command(er)  
**MND** Mission Need Document  
**MNLC** Multinational Logistic Command  
**MNMF** Multinational Maritime Force  
**MOA** Memorandum of Agreement  
**MOD** Ministry of Defense  
**MOU** Memorandum of Understanding  
**MPA** Maritime Patrol Aircraft  
**MRCA** Multi-Role Combat Aircraft (TORNADO)  
**MSC** Major Subordinate Command  
**MTRP** Medium Term Resource Plan  
**NAAG** NATO Army Armaments Group  
**NAC** North Atlantic Council (or Council)  
**NACC** North Atlantic Cooperation Council  
**NACCIS** North Atlantic Command and Control Information System  
**NACMO(A)** NATO ACCS Management Organization (Agency)  
**NACOSA** NATO CIS Operating and Support Agency  
**NADB** NATO Ammunition Data Base  
**NADC** NATO Air Defense Committee  
**NADD0** NATO Design and Development Objective  
**NADI** National Disengagement Intention  
**NADREP** National Armaments Directors Representative  
**NAEW** NATO Airborne Early Warning  
**NAFAG** NATO Air Force Armaments Group

**NAHEMO(A)** NATO Helicopter In the 90's Design and Development, Production and Logistics Management Organization (Agency)

**NAMEADSMO(A)** NATO Medium Extended Air Defense System, Design and Development, Production and Logistics Management Organization (Agency)

**NAMSO(A)** NATO Maintenance and Supply Organization (Agency)

**NAPMO(A)** NATO Airborne Early Warning and Control Program Management Organization (Agency)

**NAPO** NATO Production Objective

**NAPR** NATO Armaments Periodic Review

**NATO** North Atlantic Treaty Organization

**NAU** NATO Accounting Unit

**NCARC** NATO Conventional Armaments Review Committee

**NC3B** NATO Consultation, Command and Control Board

**NC3O (A)** NATO Consultation, Command and Control Organization (Agency)

**NC3REPS** National Consultation, Command and Control Representatives

**NCMB** NATO CALS Management Board

**NCO** NATO CALS Office

**NCS** NATO Committee for Standardization/NATO Codification System

**NCWA** NATO Civil Wartime Agency

**NDMC** NATO Defense Manpower Committee

**NEPS** North European Pipeline System

**NF&LWG** NATO Fuels and Lubricants Working Group

**NGO** Non-Government Organization

**NH90** NATO Helicopter for the 90s

**NHMO** NATO HAWK Logistics Management Office

**NHPLO** NATO HAWK Production and Logistics Organization

**NIAG** NATO Industrial Advisory Group  
**NLC** NATO Logistics Course  
**NLCP** NATO Logistics Course for Partners  
**NMA** NATO Military Authority  
**NMCC** National Movement Coordination Center  
**NMPA** NATO Maritime Patrol Aircraft  
**NNAG** NATO Naval Armaments Group  
**NNTCN** Non-NATO Troop Contributing Nation  
**NPC** Nuclear Planning Committee/NATO Pipeline Committee  
**NPLO** NATO Production and Logistics Organization  
**NPS** NATO Project Steering Committee  
**NSE** National Support Element  
**NSIP** NATO Security Investment Program  
**NSLB** NATO Standardization Liaison Board  
**NSN** NATO Stock Number  
**NSO** NATO Standardization Program  
**NSR** NATO Staff Requirement  
**NST** NATO Staff Target  
**ONS** Office for NATO Standardization  
**ONST** Outline NATO Staff Target  
**OSCE** Organization for Security and Cooperation in Europe  
**PA** Political Affairs Division (IS)  
**PADP** Panel on Air Defense Philosophy  
**PADW** Panel on Air Defense Weapons  
**PAPS** Phased Armaments Programming System

**PARP** (PfP) Planning and Review Process

**PB&Cs** Planning Boards and Committees

**PBEIST** Planning Board for European Inland Surface Transport

**PBOS** Planning Board for Ocean Shipping

**PCC** Partnership Coordination Cell

**PEP** Propulsion and Energetics Panel

**PfP** Partnership for Peace

**PHEWG** Petroleum Handling Equipment Working Group

**PJC** Permanent Joint Council

**PMR** Principal Military Requirements

**PMSC** Political-Military Steering Committee

**PO** Private Office

**POL** Petroleum, Oil and Lubricants

**POW** Program of Work

**PPC** Petroleum Planning Committee

**PROFIT** Provisioning File Items

**PSC** Principal Subordinate Command

**PSO** Peace Support Operation(s)

**PVO** Private Volunteer Organization

**PWP** Partnership Work Program

**REPDIR** Reporting Directive

**RIC** Reportable Item Code

**R&T** Research and Technology

**RTB(A)** Research and Technology Board (Agency)

**RTO** Research and Technology Organization

**SACEUR** Supreme Allied Commander Europe

**SACLANT** Supreme Allied Commander Atlantic

**SCEPC** Senior Civil Emergency Planning Committee

**SEA** Scientific and Environmental Affairs Division (IS)

**SFC** Single Fuel Concept

**SFOR** Stabilization Force (Joint Guard)

**SG** Secretary General

**SHAPE** Supreme Headquarters Allied Powers Europe

**SHARE** Stock Holding and Asset Requirements Exchange

**SILCEP** Security Investment, Logistics and Civil Emergency Planning Division (IS)

**SNLC** Senior NATO Logisticians' Conference

**SO** Standardization Objective

**SOFA** Status of Forces Agreement

**SPG** Stockpile Planning Guidance

**SRB** Senior Resource Board

**SSO** Standardization Sub Objective

**STANAG** Standardization Agreement

**TA** Technical Arrangement/Tasking Authority

**TACE** Type "A" Cost Estimate

**TFHE** Tactical Fuels Handling Equipment

**TMCC** Theatre Movement Coordination Center

**TOA** Transfer of Authority

**UN** United Nations

**UN-DHA** United Nations Department of Humanitarian Affairs

**UNHCR** United Nations High Commissioner for Refugees

**UNPROFOR** UN Protection Force

**V/SHORAD** Very Short/Short Range Air Defense Systems

**WEAG** Western European Armaments Group

**WEAO** Western European Armaments Organization

**WELG** Western European Logistics Group

**WEU** Western European Union

**WP** Working Party

**WG** Working Group

## **APPENDIX B: MAIN MILITARY COMMON RESOURCE BODIES**

### **Senior Resource Board (SRB)**

The SRB is a subsidiary body of the Council with overall responsibility for common-funded military resource management. It is composed of senior national representatives from member countries, representatives from the Military Committee (MC), Supreme Headquarters Allied Powers Europe (SHAPE), Supreme Allied Command Atlantic (SACLANT), Military Budget Committee (MBC), Infrastructure Committee (IC) and the NATO Defense Manpower Committee (NDMC). The main objectives of the SRB are:

- to provide coordinated advice to the Council/Defense Planning Committee (DPC) on the availability, management and allocation of resources;
- to provide a forum for considering the resource implications of new initiatives of common concern;
- to optimize mid- and longer term military common-funded resource management, and to provide maximum flexibility in the resource allocation process; and
- to consider and endorse capability packages for Council/DPC approval, primarily from a resource allocation point of view.

### **Infrastructure Committee (IC) - AC/4**

The IC is chaired by the Assistant Secretary General for Security Investment, Logistics and Civil Emergency Planning (ASG/SILCEP), with the Controller for Infrastructure serving as the Permanent Chairman. It is responsible, within the broad policy guidance provided by the SRB on matters of resource allocation, for the implementation of the NSIP, as approved by the Council/DPC. In this respect, the IC:

Screens projects included in the NSIP, primarily from the technical and financial point of view, also taking into account economical and political aspects, agreeing their detailed eligibility for common funding in accordance with approved guidelines;

Grants authorizations to Host Nations to commit funds for such projects;

Decides on procurement issues, including disputes;

Formally accepts implemented projects;

Manages the program from a financial point of view within the overall limits set by the SRB and approved by the Council; and

Calls forward payments from contributing nations in accordance with approved expenditure forecasts.

### **Military Budget Committee (MBC)**

The MBC is responsible for managing the International Military Budget. To this end, the MBC:

- Issues policy and guidance to the NATO Military Authorities (NMAs) for the preparation and submission of medium term financial plans; reviews these plans and

formulates recommendations to the SRB concerning resource allocation and future planning parameters;

- Issues policy and guidance to the NMAs for the preparation and submission, within approved resource allocations, of annual budget estimates; reviews these estimates and formulates recommendations to the Council for their approval;

- Monitors the execution of the approved budgets and authorizes adjustments to the authorized budgets which exceed the powers of the Financial Controllers; and provides advice to the Council on a range of international military budget matters, such as the granting of international status to military bodies, modifications to international civilian personnel establishments and reports by the International Board of Auditors.



## APPENDIX C: DEFINITIONS

**ACE.** Allied Command Europe

**Agreements.** Agreements are contracts between national authorities, or between NATO commanders and national authorities. (MC 334)

**Allied Publication.** An AP is an official NATO standardization document which some or all NATO nations agree to use as a common implementing document and which is distributed down to user level.

**Arrangements.** These provide the guidance needed for detailed joint HNS planning. They should list the conditions, procedures, legal and financial arrangements for implementing the higher level agreements. They are often referred to as Technical Arrangements, or as Detailed Support Arrangements, and sometimes as Technical Agreements and are normally concluded at the military-to-military level.

**Augmentation Forces.** European and North American Forces, other than Main Defence or Reaction Forces, provided to reinforce any region, or maritime command and contributing to deterrence, crisis management and

**Bid.** An offer made by a supplier describing the goods or services offered, stipulating prices, conditions and a validity date.

**Bidding Period.** Calendar days between the date the IFIB is distributed and the bid closing date.

**Buyer.** Members of the Purchasing & Contracting Office staff, authorised to perform procurement tasks on behalf of the Chief, P&C.

**Capability Package.** A combination of national and NATO funded infrastructure, associated costs and manpower which, together with the military forces and other essential requirements, enable a NATO Commander to achieve a specific Military Required Capability. The Capability Package directly links military requirements with established force goals by focusing on those activities most essential to the new strategy, the resultant forces and command structure and address overall resource implications, both national and international identifying all elements necessary for the package to function. The CP is presented in a three stage, ten section document which derives and presents a Required Capability, which analyses the related resource implications, and which explains the operational justification for the proposal.

**Chief P&C.** Head of a Purchasing & Contracting Office within a Headquarters.

**Civil Emergency Planning.** All defense responsibilities of government departments and agencies other than those of Foreign Offices and the purely military responsibilities of Ministries of Defense. It embraces the expanded responsibilities in crisis and war for the continuity of government, the maintenance of law and order, the mobilization and use to the best advantage of national resources (energy, manpower, transport systems, production capacity, food and agriculture, raw materials, etc.) as well as civil defense measures, including warning, rescue services and health care aimed at minimizing the consequences of enemy action to civilian populations. (Provisional definition)

**Delegations.** Official delegations appointed to represent NATO nations at NATO HQ.

**Eligible Firms.** A firm considered to be eligible to participate in NATO bidding procedures. In the case of International Bidding (IB), firms become eligible either through nomination by the delegation to NATO of its country of origin, or identification by the procurement agency, as a potential bidder.

**Combined Logistic Support.** The pooling of specified resources by member nations for use by NATO nations as decided by a coordinating authority.

**Commonality.** A state achieved when groups of individuals, organizations or nations use common doctrine, procedures or equipment.

**Compatibility.** Capability of two or more items or components of equipment or material to exist or function in the same system or environment without mutual interference.  
(AAP-6)

**Compliance.** Conformity with technical specifications and/or contract conditions.

**Contractor.** A person or company with whom an agreement is made on the delivery of goods or services on conditions and against prices stipulated in a contract.

**Concept.** A notion or statement of an idea, expressing how something might be done or accomplished, that may lead to an accepted procedure. (AAP-6)

**Consumer Logistics.** That part of logistics concerning reception of the initial product, storage, transport, maintenance (including repair and serviceability), operation and disposal of material. In consequence, consumer logistics includes stock control, provision or construction of facilities (excluding any material element and those facilities needed to

support production logistic facilities), movement control, reliability and defect reporting, safety standards for storage, transport and handling and related training. (Provisional definition)

**Contingency Planning.** Plans, which are developed for possible operations where the planning factors (e.g. scope, forces, destination, risks, area of responsibility etc.), have been identified or can be assumed. These plans are produced in as much detail as possible, including the forces needed and deployment options, as a basis for subsequent planning by nations or the NMAs. (MC 334)

**Cooperative Logistics.** NATO Cooperative Logistics is the totality of bilateral and multilateral consumer and production logistics arrangements to optimize in a coordinated and rationalized way, logistics support to NATO forces. The aim of NATO Cooperative Logistics is to achieve cost-savings through economy of scale and increased efficiency in peacetime, crisis and wartime logistics support. Development of NATO Cooperative Logistics arrangements is largely facilitated by the use of NATO Production and Logistics Agencies particularly the NATO Maintenance and Supply Agency (NAMSA) using modern techniques in the field of materiel management and procurement. (Provisional definition)

**Coordinating Authority.** The authority granted to a commander or individual assigned responsibility for coordinating specific functions or activities involving forces of two or more countries or commands, or two or more services or two or more forces of the same service. He has the authority to require consultation between the agencies involved or their representatives, but does not have the authority to compel agreement. In case of disagreement between the agencies involved, he should attempt to obtain essential agreement by discussion. In the event he is unable to obtain essential agreement he shall refer the matter to the appropriate authority. (AAP-6)

**Country of Origin.** Nation of a contractor or sub-contractor/supplier, where the contracted goods are manufactured or assembled.

**Crisis Management.** Coordinated actions taken to diffuse crises prevent their escalation into armed conflict and/or contain resulting hostilities. The crisis management machinery provides decision-makers with the necessary information and arrangements to use appropriate instruments (political, diplomatic, economic, and military) in a timely and coordinated manner. (MC 400/1)

**Cross-Servicing.** That servicing performed by one Service or national element for other Services or national elements and for which the other Services or national elements may be charged. (AAP-6)

**Days.** For the purposes of bidding procedures, "days" shall mean calendar days.

**Default.** A situation in which the supplier has not or not completely fulfilled the conditions stipulated in a contract and proof of his negligence or unwillingness can be documented.

**Doctrine.** Fundamental principles by which the military forces guide their actions in support of objectives. It is authoritative but requires judgement in application.

**Directive.** A military communication in which policy is established or a specific action is ordered.

**Firm Fixed Price Contract.** A contract whose prices are not subject to adjustment either as a result of the cost experience of the contractor or the application of indices.

**Firm of a Participating/Funding Nation.** A firm or entity legally constituted or chartered under the laws of, and geographically located in, or falling under the jurisdiction of, a nation participating in the funding of a particular procurement.

**Fixed Price Contract.** A contract awarded on the basis of price, but whose prices are subject to adjustment based on the application of national indices or the equivalent factors.

**Formal Bidding (FB).** Procurement of services and international property after formal solicitation of (at least 5) bids (issuing IFBs) to known sources in one or more NATO countries. Applicable to procurements with estimated costs between level B and level C.

**Host Nation.** A NATO nation, which receives the forces and/or supplies of, allied nations and/or NATO organizations to be located on, or to operate in, or to transit through its territory.

**Host Nation Support.** Civil and military assistance rendered in peace and war by a host nation to allied forces and NATO organizations which are located on or in transit through the host nation's territory. The basis of such assistance is commitments arising from the NATO Alliance or from bilateral or multilateral agreements concluded between the host nation, NATO organizations and (the) nation(s) having forces operating on the host nation's territory.

**International Bidding (IB).** Procurement of services and international property after formal solicitation of international bids (IFIB) to known sources in NATO countries. Bidders are requested to tender written bids in double sealed envelopes. This method is applicable to procurements exceeding EFL level C.

**Invitation For Bid (IFB).** A written invitation to potential suppliers to bid for providing services or international property, in accordance with Formal Bidding (FB) procedures.

**Invitation For International Bids (IFIB).** A written invitation to potential suppliers to bid for providing services or international property in accordance with International Bidding (IB) procedures.

**Invoice.** Document detailing payments due to a supplier, identifying the goods provided, unit prices, a total price, and any additional charges, discounts, or conditions which may be applicable. When requested, suppliers must be able to document proof of delivery in order to substantiate invoices submitted.

**Implementation Plans.** These are detailed plans which provide sufficient implementing data to enable military commands of the requesting nation and the host nation to implement HNS/WHNS during times of crisis, tension or war. They may be either joint plans or unilateral plans prepared separately by the host nation and the requesting nation. Joint implementation plans are normally negotiated through a Joint Implementation Committee, approved by the Joint Planning Committee and signed at the military-to-military level.

**Infrastructure.** A term generally applicable for all fixed and permanent installations, fabrications, or facilities for the support and control of military forces.

**In-Service Support.** The management and execution of support activities to ensure continued attainment of the intended operational capabilities of the system/equipment during its in-service phase.

**Interchangeability.** A condition which exists when two or more items possess such functional and physical characteristics as to be equivalent in performance and durability, and are capable of being exchanged one for the other without alteration of the items themselves, or of adjoining items, except for adjustment and without selection for fit and performance.

**Interoperability.** The ability of systems, units or forces to provide services to and accept services from other systems, units or forces and to use the services so exchanged to enable them to operate effectively together.

**Integrated Logistic Support.** The management and technical process through which supportability and logistics support considerations of systems/equipment are integrated from the early phases of and throughout the life cycle of the project, and by which all elements of logistics support are planned, acquired, tested, and provided in a timely and cost-effective manner.

**Joint.** Activities, operations, organizations, etc. in which elements of more than one service of the same nation participate (when all services are not involved, the participating services shall be identified, e.g., Joint Army-Navy). (AAP-6)

**Lead Nation Logistic Support.** One nation assumes the responsibility for procuring and providing a broad spectrum of logistic support for all or a part of the multinational force and/or headquarters. Compensation and/or reimbursement will then be subject to agreements between the parties involved. The lead nation may also assume the responsibility to co-ordinate logistics of other nations within its functional and regional area of responsibility.

**Lines of Communication.** All the land, water and air routes that connect an operating military force with one or more bases of operations, and along which supplies and reinforcements move.

**Logistics.** The science of planning and carrying out the movement and maintenance of forces. In its most comprehensive sense, those aspects of military operations which deal with:

- a. design and development, acquisition, storage, movement, distribution, maintenance, evacuation, and disposition of materiel;
- b. transport of personnel;
- c. acquisition or construction, maintenance, operation, and disposition of facilities;
- d. acquisition or furnishing of services; and
- e. Medical and health service support. (AAP-6)

**Main Defense Forces.** Active and mobilizable ground, air and maritime components which are assigned to MNCs and their MSCs, as appropriate, in order to dissuade coercion, deter attack and defend against aggression. (MC 317)

**Maintenance.**

- a. All action taken to retain materiel in or to restore it to a specified condition. It includes: inspection, testing, servicing, classification as to serviceability, repair, rebuilding and reclamation.
- b. All supply and repair action taken to keep a force in condition to carry out its mission.
- c. The routine recurring work required to keep a facility (plant, building, structure, ground facility, utility system, or other real property) in such condition that it may be continuously utilized, at its original or designed capacity and efficiency, for its intended purpose. (AAP-6)

**Major NATO Commanders.** MNCs are Supreme Allied Commander Atlantic (SACLANT), and Supreme Allied Commander Europe (SACEUR).

**Material Inspection Receiving Report (MIRR).** A report made by a receiving organisation certifying that compliant materials have been received from the supplier, in good condition and in the correct quantities. The report enables the Purchasing & Contracting to proceed with the payment procedures and can be used as a basis for supplier evaluation.

**Military Budget Committee (MBC).** A Committee of representatives of the NATO nations, authorised by those nations to take decisions associated with screening, approval, and execution of the NATO Military Budget (MB).

**Mobility.** A quality or capability of military forces which permits them to move from place to place while retaining the ability to fulfil their primary mission. (AAP-6)

**Mobilization.** The process by which the armed forces or parts of them are brought to a state of readiness for conflict, to meet a military threat. This includes assembling and organizing personnel, formations, materiel and supplies for active military services, as well as training.

**Multinational Forces.** Forces of more than one nation under a NATO Commander or non-NATO Commander within a NATO-led operation.

**Multinational Integrated Logistic Support.** Two or more nations agree to provide logistic assets to a multinational logistic force under operational control of a NATO Commander for the logistic support of a multinational force.

**Multinational Logistics.** The overarching term for the different modes to logistically support operations other than purely national, such as Multinational Integrated Logistic Support, Role Special-ization Support and Lead Nation Logistic Support.

**NATO Accounting Unit.** A notional currency which forms the basis for estimates and funding of common funded infrastructure projects, O&M and manpower costs. The value of one unit is established periodically by NATO vis-a-vis national currencies.

**Non-conformance.** Situation in which the supplier has not partially or completely fulfilled the conditions stipulated in a contract.

**NATO Commander.** A military commander in the NATO chain of command.

**NATO Military Authority.** Any international military headquarters or organization covered by the "Protocol on the Status of International Military Headquarters" set up pursuant to the North Atlantic Treaty, (called the Paris Protocol) and any other military authority to which the NATO Council has applied the provisions of the "Agreement on the Status of the North Atlantic Treaty Organization, National Representatives and International Staff" (called the Ottawa Agreement) by virtue of the said agreement.

**Non-NATO Commander.** A military commander of a non-NATO nation who participates, within the chain of command, in a NATO-led operation or in an operation where NATO assets are used.

**Notification of Intent to Invite Bids (NOI).** A formal communication to national delegations to NATO of a Procurement Agency's intent to conduct International Bidding (IB) procedures in execution of a particular procurement.

**Operational Command.** The authority granted to a commander to assign missions to tasks to subordinate commanders, to deploy units, to reassign forces, and to retain or delegate operational and/or tactical control as may be deemed necessary. It does not of itself include responsibility for administration or logistics. May also be used to denote the forces assigned to a commander.

**Operational Control.** The authority delegated to a commander to direct forces assigned so that the commander may accomplish specific missions or tasks which are usually limited by function, time or location; to deploy units concerned, and to retain or assign tactical control of those units. It does not include authority to assign separate employment of components of the units concerned. Neither does it, or itself, include administrative or logistic control.

**Operational Mobility.** Operational mobility is the capability to move forces and their associated logistic support quickly and effectively within a region (intra-regional). It also embraces the capability to concentrate regional forces against the major enemy thrust and to counter-concentrate operational reserves.

**Organization for Security and Cooperation in Europe.** Formerly known as the Conference on Security and Cooperation in Europe (CSCE), the OSCE was initially a political process which set out fundamental principles governing the conduct of international affairs to ease tension and build confidence among states. Now formally an organization with 55 members including all Europe, and Canada and the United States.

**Partial Bidding.** Solicitation of offers for, or offering to provide, only a portion of the total requirement specified in a technical specification.

**Policy.** Prudent course of action or conduct to be applied in the application of a principle.

**Procurement Agency.** The Purchasing and Contracting Office of a NATO Headquarters, Agency, or Program.



**Property Accountable Officer (PAO).** Individual responsible for the ordering, inspection, acceptance, control and disposal of material of an organisation.

**Purchasing & Contracting (P&C).** The function of providing operational support, through acquisition (by purchase or otherwise), of goods or services. The Purchasing and Contracting staff is responsible for the planning, execution, and control of activities associated with this function. These responsibilities include development and maintenance of relations with suppliers in order to meet the short and long-term procurement needs of a headquarters.

**Reallocation Authority.** The authority given to NATO Commanders and normally negotiated in peacetime, to reallocate in an "emergency in war" national logistic resources controlled by the combat forces under their command, and made available by nations, in order to influence the battle logistically.

**Reallocation of Resources.** The provision of logistic resources by the military forces of one nation from those deemed "made available" under the terms incorporated in appropriate NATO documents, to the military forces of another nation or nations as directed by the appropriate military authority.

**Redistribution Authority.** The authority given to a NATO Commander to redistribute certain resources, designated in peacetime and assigned to his command, and made available by nations, in order to support operations.

**Redistribution of Resources.** The utilization of logistic resources after Transfer of Authority necessary for the fulfilment of a commander's combat missions. The logistic resources are designated in peacetime and will become assigned to the NATO Commander in crisis and conflict.

**Reinforcement.** The process of relocating forces in accordance with the Strategic Concept to any area at risk within and beyond the Alliance's Area of Responsibility to strengthen military capabilities as a means of conflict prevention, crisis management or defense.

**Request For Price (RFP).** An informal version of an invitation for bid (IFB) from a buyer to one or more suppliers in order to obtain a prices for goods or services. This request must contain the technical specifications of the desired article(s)/service(s), the quantity needed, quality, delivery time and other applicable conditions.

**Request for Quote (RFQ).** Same as RFP.

**Restricted Bidding (RB).** The procedure of soliciting written or verbal bids from at least three qualified contractors in one or more NATO countries. This method is applicable to procurements with estimated costs between EFL level A and level B.

**Resupply.** The act of replenishing stocks in order to maintain required levels of supply.

**Role Specialization.** One nation assumes the responsibility for procuring a particular class of supply or service for all or a part of the multinational force. Compensation and/or reimbursement will then be subject to agreements between the parties involved.

**Sending Nation.** A nation sending or participating in the sending of (deploying) national forces and/or national components of multinational forces. The sending nation may request the use of host nation logistics and administrative support during transit and in the theatre of operations.

**Shared Use.** Utilization of assets identified and made available by nations to NATO.

**Single Tender (ST).** Procurement of services and international property after solicitation of at least one written or verbal bid to known sources in NATO countries. This method is applicable to procurements with estimated costs not exceeding EFL "A."

**Standardization.** Within NATO, the process of developing concepts, doctrines, procedures and designs to achieve and maintain the most effective levels of compatibility, interoperability, interchangeability and commonality in the field of operations, administration and materiel.

**Standardization Agreement.** The record of an agreement among several or all the member nations to adopt like or similar military equipment, ammunition, supplies, and stores; and operational, logistics, and administrative procedures. National acceptance of a NATO Allied Publication issued by the Military Agency for Standardization may be recorded as a Standardization Agreement.

**Strategic Mobility.** Strategic mobility is the capability to move forces and their associated logistic support quickly and effectively over long distances. This can be between theatres (inter-theatre), between regions (inter-regional), or beyond NATO's Area of Responsibility.

**Supply.** All materiel and items used in the equipment, support and maintenance of military forces.

**Support.** The action of a force, or portion thereof, which aids, protects, complements, or sustains any other force.

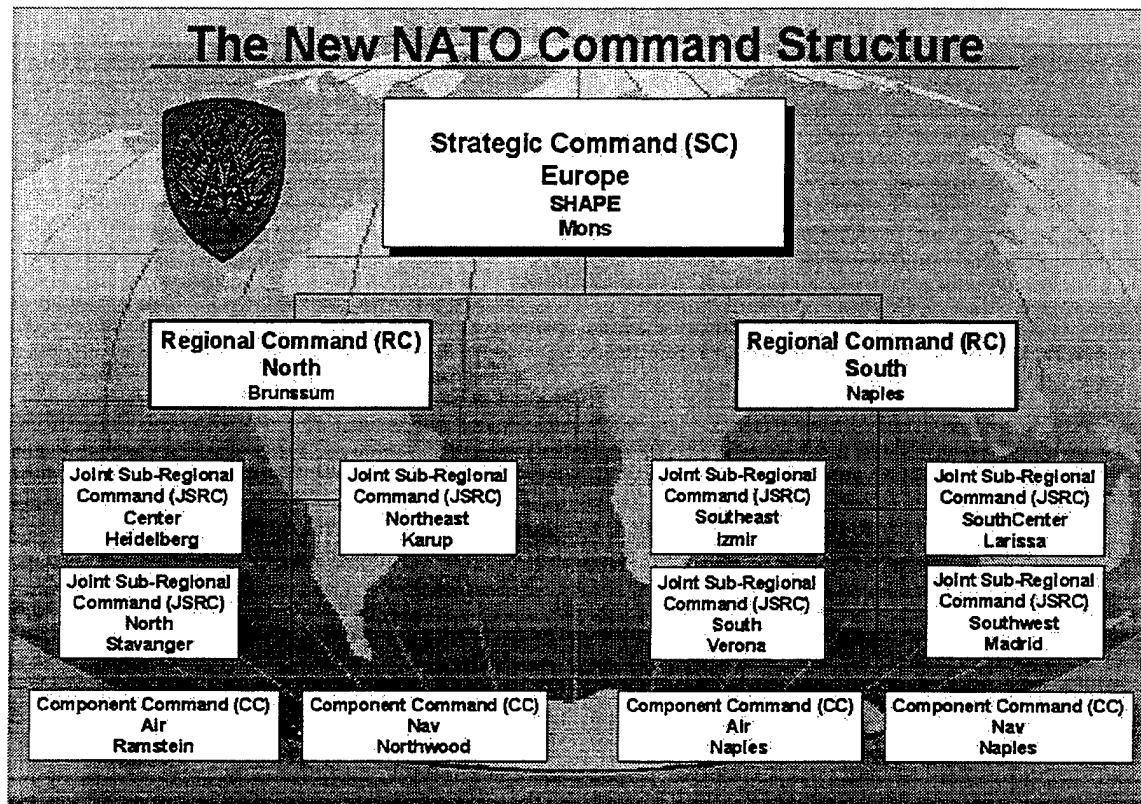
**Sustainability.** The ability of a force to maintain the necessary level of combat power for the duration required to achieve its objectives.

**Tactical Mobility.** Tactical mobility is the quality or capability to concentrate regional in-place forces up to division level against the major local enemy thrust and to counter-concentrate tactical reserves.

**Transfer of Authority.** Transfer of authority of forces is the formal transfer of a specified degree of authority over designated forces both between nations and NATO Commanders, and between any two NATO Commanders.

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## APPENDIX D: NEW NATO COMMAND STRUCTURE



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Monterey, California 93943
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Department of Systems Management  
Naval Postgraduate School  
555 Dyer Rd.  
Monterey, California 93943
5. CDR Dave A. Smith (Code SM/SV).....2  
Department of Systems Management  
Naval Postgraduate School  
555 Dyer Rd.  
Monterey, California 93943
6. LCDR Kenneth J. Broome.....2  
1007 Vernon Street  
Alexandria, Virginia 22313